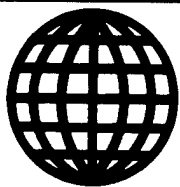


JPRS-CAR-89-066
27 JUNE 1989



**FOREIGN
BROADCAST
INFORMATION
SERVICE**

JPRS Report

China

REPRODUCED BY
U.S. DEPARTMENT OF COMMERCE
NATIONAL TECHNICAL INFORMATION SERVICE
SPRINGFIELD, VA. 22161

19980811 154

China

JPRS-CAR-89-066

CONTENTS

27 JUNE 1989

INTERNATIONAL

GENERAL

- World Military Trends Seen Pointing Toward Peace in Nineties [GUOJI ZHANWANG No 5] 1
Discussion of Shevardnadze's Middle East Initiative [SHIJIE ZHISHI No 7] 3

POLITICAL

- Critique of Student Movements [Hong Kong PAI HSING No 192] 6
Remaining Influence of Cultural Revolution [XIN GUANCHANG No 6] 6
Scholar Says Marxism Must Evolve To Stay Relevant [MAKESI ZHUYI YANJIU No 1] 7
Articles Trace Miscarriage of Justice Due to Personal Connections [XIN GUANCHANG No 5] 11
Murderous Attack, Coverup, Trial Detailed 11
Prosecutor Called 'Living Duke Bao' 21

ECONOMIC

NATIONAL AFFAIRS, POLICY

- Academy of Social Sciences Official on Problems in Reform [YANGCHENG WANBAO 17 May] .. 23
Study Group Views Economic Policies, Options [JINGJI RIBAO 5 May] 25
Major Factors Limiting Price Reform [JINGJI CANKAO 7 Mar] 29
'New Characteristics' of Economy [JINGJI RIBAO 10 May] 30
Review of Inflation Control Policy [JINGJIXUE ZHOUBAO 7 May] 32

PROVINCIAL

- Guangdong Urges Speeding Up Export-Oriented Economy [Guangzhou Radio] 34
Liaoning Private Enterprises Increase Dramatically [CEI Database] 34

FINANCE, BANKING

- Thoughts on Country's Welfare System [RENMIN RIBAO 25 May] 35

INDUSTRY

- Main Industrial Output for April [CEI Database] 36
Shaanxi Commission Reports 'Marked Turn' for Better [Xian Radio] 37

FOREIGN TRADE, INVESTMENT

- Goal of Greater Economic Cooperation With Pacific Rim [SHIJIE JINGJI DAOBAO 1 May] 38
Restoring Order to Country's Foreign Trade System [LIAOWANG No 10] 38
Chemical Industry Uses Foreign Loans [CEI Database] 40
Trade Expansion, Structural Changes [JINGJI YANJIU No 3] 41
Fujian Exports Total \$400 Million [CEI Database] 46

ECONOMIC ZONES

- Hainan Enacts Regulations for Development Zone [Hong Kong ZHONGGUO TONGXUN SHE] .. 47

LABOR

Characteristics in Unemployment Problem Situation	[JINGJI WENTI TANSUO No 3]	47
---	----------------------------	----

POPULATION

Why Country 'Lost Control' of Population Growth	[LIAOWANG No 10]	50
---	------------------	----

AGRICULTURE

Analysis of Trends in Agricultural Production, Prices, Costs	[JINGJI WENTI No 3]	52
Peasants Complain About Fertilizer Price Hikes	[Hong Kong ZHONGGUO TONGXUN SHE]	60
New Cotton, Grain Production Bases To Be Built	[XINHUA]	60
Agricultural Loans for Heilongjiang	[HEILONGJIANG RIBAO 7 May]	60
Heilongjiang Beet Area	[HEILONGJIANG RIBAO 13 May]	60
Dairy Stock Down in Heilongjiang	[HEILONGJIANG RIBAO 6 May]	61
Yunnan Tea Procurement Prices Up	[YUNNAN RIBAO 3 May]	61
Zhejiang Issues IOU's to Tea Farmers	[NONGMIN RIBAO 8 May]	61

SOCIAL

Minister of Personnel Interviewed on Wages of Intellectuals	[LIAOWANG No 12]	62
Article Urges Freedom of Press	[SHIJIE JINGJI DAOBAO 1 May]	64
Inflation, Corruption Breed Popular Disaffection	[Hong Kong PAI HSING No 188]	67
Striking 'Hard, Unrelenting Blows' at Crimes in Five Provinces	[RENMIN GONGAN BAO 12 May]	70
Forum on Transition to Pluralistic Society	[Hong Kong KUANG CHIAO CHING No 198]	71
Hebei Court Sentences Convicts to Death	[HEBEI RIBAO 11 May]	73

PRC MEDIA ON TAIWAN AFFAIRS

Magazines Seek Distribution on Mainland	[Hong Kong ZHONGGUO TONGXUN SHE]	74
---	----------------------------------	----

TAIWAN

Taipei's Flexible Diplomacy, Unification Issue	[MING PAO YUE KAN No 279]	75
--	---------------------------	----

GENERAL

World Military Trends Seen Pointing Toward Peace in Nineties

40050459 Shanghai GUOJI ZHANWANG [WORLD OUTLOOK] in Chinese No 5, 8 Mar 89 pp 5-6

[Article by Zhang Jinrui 1728 6855 3843: "World Military Trends in the Nineties"]

[Text] In recent years, particularly since the beginning of last year, there have been great changes in the international situation. In the political domain, there has been a switch from confrontation to dialogue, from tension to relaxation. In line with this situation, the world military trends in the nineties will reflect a change from the strategic offensive to the strategic defensive, a change from the arms race to a competition in total national strength, and a change from war to peace.

1. The Structure of World Military Strategy Depends on the Past

After World War II, America and the Soviet Union became super military powers, and a bipolarized structure in world military affairs was formed. In the nineties, the total military strength of any one nation in the world will not be enough to enable it to catch up with or overtake that of America or the Soviet Union. The strategic balance of power in this bipolar world cannot be broken. Even if America tries, through the realization of the Strategic Defense Initiative (SDI), to obtain military superiority over the Soviet Union, for economic, technological, and political reasons, it cannot deploy the SDI system in this century and the Soviet Union is doing vigorous research on its own SDI system. New members, the sixth and seventh nuclear states, could be added to the "nuclear club," thereby heightening the danger of war, but the overall situation of peace and development will not be affected.

2. The Nature of NATO and the Warsaw Treaty Will Change From Offensive to Defensive

Europe is capitalism's essential key for controlling the world, and for this reason the two world wars broke out here. As a result of World War II, Europe was split in two. Since that time America and the Soviet Union have always put the focus of their strategy on Europe, and the two great military blocs—NATO and the Warsaw Treaty—have for a long time been confronting each other with massive military forces ready to fight. But, since the beginning of 1987, there has appeared a flexibility in this military confrontation. America and the Soviet Union signed the intermediate-range missile treaty, and the EEC and CEMA formally established diplomatic relations, thereby gradually relaxing the situation in Europe and opening new prospects for cooperation between the two sides in various aspects in the future. In particular, the Warsaw Treaty's disarmament proposal has become the focus of world attention. This

proposal is divided into three stages of talks and steps for disarmament. The first stage will, first of all, solve the problem of achieving a rough parity between the two great military blocs with respect to the number of their troops and conventional arms by making them lower than each side's present level. In the second stage each side's armed forces will be cut by about 25 percent, and at the same time there will be a cut in their weapons. In the third stage there will be cuts in the troops and the conventional arms, so that the armed forces of each side have a strictly defensive character. The proposal publicly declared the Soviet Union's good faith in its willingness to take unilateral steps for disarmament and to allow on-site verifications. NATO is taking this proposal seriously. To promote the achievement of this proposal, Gorbachev, on 7 December last year at the UN General Assembly, announced that the Soviet Union within 2 years would cut the number of its troops by 500,000, including a withdrawal of 6 tank divisions from Eastern Europe and the corresponding dismantling of military installations. Following progress by East and West in jointly building the "European Mansion," NATO and the Warsaw Treaty would gradually assume a defensive character.

3. America and the Soviet Union Will Further Cut and Destroy Arms

After World War II both America and the Soviet Union made the contention for military superiority a strategic measure for achieving hegemony. Therefore, even if they had once signed several treaties limiting weapons, the speed and scale of the arms race were still alarming and unprecedented. They now possess nuclear forces sufficient to destroy the globe several times over, thereby seriously threatening world civilization and mankind's survival. However, beginning in 1987 the U.S.-Soviet arms control talks, particularly those on nuclear arms, entered a new stage, namely, the stage of actual cuts and destruction. After America and the Soviet Union signed the intermediate-range missile treaty, they agreed in principle to cut offensive strategic weapons by 50 percent. The question of making cuts in conventional weapons was also put on their daily agendas. Once they reach complete agreement on cutting offensive strategic weapons by 50 percent, the reduction of conventional forces will become the next focus of their talks. The talks on banning chemical weapons are proceeding smoothly, and not long from now an agreement on the total banning of these weapons could be reached. In the talks on a total ban on nuclear tests, although it will be impossible to make a major breakthrough in the foreseeable future, in the long run the method of doing this by separate stages and steps could be put into effect.

The main reasons that the U.S.-Soviet talks on arms control, particularly those on nuclear arms control, have entered the stage of actual cuts and destruction are the changes in American and Soviet nuclear strategy, the restrictions imposed by economic factors, the impetus of the new technological revolution, and the development

of disarmament theories (for example, the theory of nuclear winter, the theory of nuclear deterrence, the theory of arms control, and the theory of rational sufficiency). However, the process of reaching any disarmament agreement will still be a process of complicated, gruelling, and long-term bargaining.

4. America and the Soviet Union Will Cool the "Hot Spots" in Their Contention for Important Strategic Points

After World War II, to strive for hegemony and prepare for war, America and the Soviet Union extended their rivalry to the Third World, where they contended for important strategic points in order to complete their global strategic deployments. Especially when Brezhnev was in power, the Soviet Union, making use of the opportunity presented by America's drawback around the globe, launched an all-round, powerful offensive against America's sphere of influence, causing there to appear in the American and Soviet contention for hegemony in the seventies a posture in which the Soviet Union was on the offensive and America was on the defensive. By means of this offensive, the Soviet Union tried to get control of the important strategic points in the Third World so as to complete its outflanking and envelopment of Western Europe. Because, after World War II, the Third World was basically controlled by America, at every step in its advance the Soviet Union "scraped off a layer of paint" that had been put on by America itself, thereby causing the struggle between America and the Soviet Union for these important strategic points to become more and more fierce. The Afghanistan War, the Kampuchean War, the Iraq-Iran War, the Middle East wars, the Southern African wars, and the Central American wars were all reflections of this U.S.-Soviet struggle.

However, since the beginning of last year a trend toward relaxation and settlement has appeared in the above-mentioned "hot spots." Some "hot spots" are already no longer hot, and it is estimated that by the end of this century all of the above-mentioned "hot spots" could be cooled off. In some secondary "hot spots"—such as the question of the Magreb countries' opposition in Western Sahara, the dispute between Turkey and Greece on the question of Cyprus and the continental shelf, the dispute between Ethiopia and Somalia over the question of the jurisdiction of the Ogaden territory, and the contradictions between Libya and Chad and between Mozambique and South Africa—rational solutions are within sight.

The above-mentioned world military trends are in reality the prelude to the great changes that will take place in the world of the 21st century. They did not appear fortuitously; they have deepgoing strategic, economic, and technological causes.

First, there are the changes in the strategic environment. Very big changes occurred in the strategic environment both before and after World War II. Before the war, the

whole world, with the exception of one socialist country, was unified under capitalism. The unbalanced pattern of capitalist development manipulated the fate of war and peace. After the war, the socialist camp made its appearance. For more than 40 years, capitalism and socialism have been engaged in a critical trial of strength, and the question of who will vanquish whom still cannot be settled. Imperialism "was on its deathbed but would not die," and it even became more vigorous. After becoming powerful and prosperous for a time, socialism became like a boat that did not have enough horsepower running against the current. The two superpowers are now observing each other and watching each other's capabilities. Facts have proven that a method of class struggle and warfare cannot vanquish the other side. Therefore, the superpowers cannot but strive for "one globe with two systems," long-term coexistence, and peaceful competition. At the same time, the abrupt rise of the Third World has stripped the superpowers of their control over world affairs. The international coordination displayed by the West at its seven-nation summit has weakened the effect of the unbalanced pattern in the development of capitalism on the issue of war and peace. The mutual dependence of the capitalist countries and the socialist countries, of the developed countries and the developing countries, is increasingly becoming a reality.

Second, there is the effect of the strategy for national security. In the past it was thought that the origin of the threat to a nation's security was military attack from the outside and that the means for dealing with this threat was military force. The importance of arms in protecting a nation's security was always emphasized. However, under present circumstances in which there is a trend for change in the contemporary era, the threat to national security is not just a military one; it is a comprehensive threat that includes military, political, economic, scientific and technological, social and psychological threats. The threats are not only external but are also internal. Political, food supply, and spiritual crises can threaten national security. Especially when internal and external threats occur together, a fortress is most easily breached from within. Therefore, the means of dealing with threats must also be comprehensive, that is, there must be a comprehensive application of military, political, economic, scientific and technological, social and cultural forces in order to ensure national security. Under these circumstances, the United States, the Soviet Union, and other developed countries have begun to devote themselves to the building of a comprehensive security strategy. It may be predicted that in the nineties, and even in the 21st century, there will be a great trial of strength between these comprehensive security strategies.

Third, there is the conditioning of economic factors. Economics is the foundation of politics, military affairs, science and technology, culture, and diplomacy. Only if there is economic development can the support of a people within a country be obtained and victory in international competition be won. Economic backwardness is the greatest threat to national security. Therefore,

no matter whether is a developed country or a developing country, the country has formulated a strategy for national economic development and has concentrated its main manpower, material resources, and financial resources on developing its economy, doing all it can to remain in or ascend into the ranks of developed countries and catch the "train" of the times in the 21st century. At the same time, because of the trend for the world economy to become an organic whole and because of the five great crises that the contemporary world faces (in water sources, food, natural resources, ecology, and international economic order), competition and cooperation run on parallel tracks.

Fourth, there is the impetus of the new technological revolution. The vigorous rise of the new technological revolution has promoted the development of all economic domains. Scientific and technological progress can spur the economy and the military and promote economic and military modernization. As a result of military modernization, armed forces have been changed from the "quantitative type" to the "qualitative type." Especially after the appearance of nuclear weapons, people came to understand that not only could a big nuclear war "not be fought with impunity" and "not be fought and won," but also that even a conventional war could not be fought because it would lead to a big nuclear war, causing a disaster that would mean mankind's extermination. Therefore, Clausewitz's famous thesis—"war is the continuation of politics by other means (namely force)"—is in a certain sense already outmoded.

The above-mentioned trends do not mean the coming of a world of the "three withouts" (without armed forces, without weapons, and without war). Each country will put even more stock on the excellence of its armed forces, enhance their building in technology and quality, be prepared for any contingency or unstable situation, and achieve a state in which preparedness averts peril.

Discussion of Shevardnadze's Middle East Initiative

40050485 Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 7, 22 Mar 89 pp 3-4

[Article by Ruo Ru 5387 1946: "Shevardnadze Knocks at the Middle East's Door"]

[Text] *Hoisting the banner of a Middle East peace talk, they have strengthened relationships with every Middle East nation, with special emphasis on renewing old friendships with the moderate Arab nations, and they have eased relations with Israel at the same time—the Soviet Union has come back to the Middle East with a new posture.*

The Soviet foreign minister left on 17 February for a 10-day visit to the Middle East, with Syria, Jordan, Egypt, Iraq, and Iran on his itinerary, and he met with seven Middle East leaders, including Israeli Foreign

Minister Arens and the Palestinian Liberation Organization Executive Committee Chairman 'Arafat. This marked the first Middle East trip for a Soviet foreign minister in 15 years. Foreign news agencies generally agree that Shevardnadze's trip marked the Soviet Union's return to the Middle East, and in the future, they will share equal billing with the United States in influencing the Middle East situation.

The Opportunity for Returning to the Middle East

There have been dramatic changes in the Middle East situation in recent months. The Palestinian uprising in the West Bank and Gaza Strip since late last year and the Israelis' cruel repression once again directed world attention to the urgent need for a Palestinian solution. The clamor for a Middle East international conference to resolve the Palestinian issue grows louder every day. The PLO has seized the opportunity and taken a practical and flexible stance and has won wide international support and even opened the door to a dialogue with the United States. The moderate Arab faction is waxing in strength, while the extremist faction's influence is waning. Unity among Arab nations seems more plausible these days. Meanwhile, although Israel's stance on an international conference to resolve the PLO representation issue has not changed, it has put forth new "tentative ideas." For example, the Israelis have indicated that they are willing to accept the Palestinians' legal rights and have emphasized that negotiation is the only way to resolve the situation. Shamir even suggested that if the Palestinians would accept self-rule, Israel is willing to withdraw some troops from the occupied territories. Thus, for the first time, the opportunity is there to facilitate the use of political means to resolve the Middle East situation.

As for the Soviet Union, it seems the time has come for them to go to the Middle East. Just two days before Shevardnadze was to leave, the Soviets had completed the Afghan troop withdrawal on schedule, thus improving their image in the Islamic world and enabling them to present themselves as mediators in the Middle East arena. In recent years, the Soviets have adjusted their Middle East policy and have won the general admiration of the Arab nations.

Another development is that, in the United States, President Bush has just come into office, and the new government's Middle East policy is as yet unclear. The Reagan administration accomplished little in the Middle East, leaving a "gap" in the United States' Middle East diplomacy, and giving the Soviets the opportunity for a foothold.

From "Strategic Balance" to "Balance of Interests"

Observers pointed out that, on his trip, Shevardnadze hoisted the banner of a Middle East peace talk and emphasized forging stronger bilateral relations with the Middle East nations, attaching special importance to

reconciliation with the moderate Arab nations while easing relations with Israel, too. His words and deeds during the Middle East visit have attracted much attention.

One, he advocated a Soviet-initiated Middle East peace process. Shevardnadze pointed out repeatedly that the turmoil in the Middle East is no longer in keeping with the present trend of moderation. The Middle East problems cannot be resolved by war or military contest. The only way to have peace in the Middle East is through negotiation based on a balance of interests, and so the parties must consider comprehensive cooperation and adhere to the principle of equality and free choice and overcome the old prejudices that obstruct and limit multiparty dialogue and contact. He pointed out that there must be "historic compromises" on various matters.

Two, he actively prepared for a Middle East peace talk. At the first stop on his five-nation visit, in Damascus, Shevardnadze advanced a three-point proposal centered on the international conference, laying the foundation for his 10-day trip. Primarily, he wanted to convene a special meeting with participation by the foreign ministers of the member countries of the UN Security Council to discuss the Middle East question; he proposed gathering the five permanent member states of the United Nations for consultation and meeting with the Arab nations and together take 6 to 9 months to prepare for an international conference; he also wanted to give play to the UN secretary general to help iron out differences.

Three, he launched all-around diplomacy and projected a new image as a "go-between." On his first stop, Shevardnadze went straight to visit old friends in Damascus, but instead of supporting Syria to maintain military strategic balance as in the past, he persuaded Syria to keep up with developments, reconcile with Egypt and the PLO, and take part in the peace talks. Shevardnadze also became the first Soviet foreign minister to visit Amman, a move regarded as one of the breakthroughs marking better Soviet relations with the moderate Arab nations. In Amman, he proposed that representatives from Jordan, Syria, Egypt, Lebanon, and the PLO hold a meeting to smooth out differences. People have commented that the Soviet's old "lopsided" diplomacy has changed in the Middle East.

Four, he made up with old friends. Shevardnadze's visit to Cairo was a pivotal part of the trip. In the wake of Egyptian Foreign Minister Meguid's visit to Moscow last May, the Soviet foreign minister visited Egypt for the first time after 15 years and normalized relations between the Soviet Union and Egypt. In the past, the Soviets sided with the Arab hardliners and denounced Egypt for signing the Camp David accords. This time, Shevardnadze attached special importance to Egypt and even launched his diplomatic activities using Cairo as its base, thus, confirming Egypt's status and unique function in the Middle East.

The interesting thing is that, when Shevardnadze was in Cairo, he opened dialogue with Israeli Foreign Minister Arens, but also met with PLO Chairman 'Arafat, giving people the impression that Israel and the PLO are negotiating indirectly through the Soviet Union. Shevardnadze expressed publicly that in the wake of the development of the Middle East peace process, the Soviet Union and Israel will resume diplomatic relations; in resolving the Middle East situation, both Arab and Israeli interests must be considered; without Israel's good will, Arab-Israeli disputes cannot be resolved. Foreign news agencies commented that his "highly rhetorical" speech was intriguing. The Soviet-Israeli dialogue in Cairo has become a "hot topic" among experts on international issues.

In Tehran and Baghdad, Shevardnadze urged Iran and Iraq to continue the peace talks and resumed friendly relations with both countries at the same time. Shevardnadze was the highest ranking official from the Soviet Union to visit Iran since Khomeini seized power. Shevardnadze arrived in Tehran at a time when Iran's relations with the West took a nose dive over *Satanic Verses*, and he became the first foreign guest to be received by Khomeini himself in the last 7 years. At the meeting, Khomeini emphasized the importance of a friendly Soviet-Iranian relationship and expressed hope to join hands with Moscow to stand against the Western world.

The New Diplomatic Rivalry

Shevardnadze's Middle East trip made the United States suspicious and unsettled. In Tokyo, President Bush publicly indicated the need to contain the Soviet's role in the Middle East, declaring that the Soviet's proposal is "nothing new" and "there is nothing to worry about." In Cairo, Shevardnadze retaliated by saying, "If the United States can solve all the problems by themselves, we will only congratulate them. But this is probably unrealistic." He even criticized for the first time Bush's speech for having "a regrettable hint of hostility." He urged the United States to abandon its policy of trying to drive the Soviet Union out of the Middle East and declared that, without the Soviets, there can be no Middle East peace process, and he also said that the Soviet Union not only "should" but also "can" contribute to peace in the Middle East.

As the Soviet foreign minister labored among the five Middle East nations, President Bush, in Tokyo, also took the first step in the new U.S. Government's Middle East diplomacy—he met separately with the heads of Jordan, Egypt, and Israel. Reports said that the President has invited Egyptian President Mubarak, Jordan's King Hussein, and Israeli Prime Minister Shamir to visit the United States this spring. Meanwhile, Gorbachev too has invited Syria's President al-Asad and PLO Chairman 'Arafat to visit the Soviet Union. It seems that U.S. and Soviet Union diplomacy will lock horns over the Middle East question.

The United States and the Soviet Union, however, do not have irreconcilable differences over the Middle East question. Both countries hope to resolve the Arab-Israeli disputes and are willing to work for the Middle East peace process, and so we cannot eliminate entirely the possibility of their again working hand in hand. Reportedly, U.S.-Soviet foreign ministers

exchanged ideas in Vienna. The media forecast that, in May of this year, when Baker visits the Soviet Union, both sides will bring up the Middle East question. Observers agree that the prospects of the Middle East peace process will depend to a large extent on how far the Soviet and the United States will cooperate with each other.

Critique of Student Movements 40050557

[Editorial Report] The Hong Kong journal PAI HSING [THE PEOPLE] in Chinese published an article in its 16 May 89 issue on pp 20-21 titled "An Evaluation of the Effectiveness of the Student Movement and Its Value to Democracy." According to the author, Yang Manke, student movements since the May 4th Movement 70 years ago have been heroic but ineffective. Students' sacrifices have been lamentable with minimum accomplishments. Through the May 4th Movement, enthusiastic intellectuals fomented a selfless worker/peasant revolution that "directly nourished the growth of Communist dictatorship." Similarly, those involved in campus uprisings since the Cultural Revolution have become the manipulated victims of the so-called "enlightened" leadership. For instance, the Democracy Wall Movement in 1979 brought Deng Xiaoping and his clique into power. However, as soon as Deng established his power base, he immediately jailed Wei Jingsheng and suppressed the movement. Again, the campus movement during 1986-1987 obviously caused the downfall of Hu Yaobang and the setback of reforms. Poorly planned and unorganized student movements are certainly no match for sophisticated autocratic machinery. They may draw temporary attention, but cannot catalyze the birth of a democratic system. Students or intellectuals engaged in such activities end up being used or become victims of factional power struggles.

To get out of this situation, democracy advocates should have a realistic understanding of the essence and the developmental process of democracy. According to the author, there are three progressive levels of development toward a democratic society: recognition of individual value, existence of a multilevel social infrastructure, and establishment of a democratic political system. Traditionally, democratic movements initiated in China by intellectuals almost invariably demand the ultimate goal—a democratic political system—at the very initial stage. Yet, the efforts and sacrifices of intellectuals in past decades did not even win them the right to print a single independent publication. The most recent student movement, intended to mourn the death of Hu Yaobang, started from the very beginning by demanding a mass resignation of the Politburo. This shows that the emotion-stricken students lacked a well thought-out strategy. The author indicates that it is high time for intellectuals to make a critical self-study. They should stop being naive and impulsive. They should realize that slogans alone cannot bring democracy to China.

The author says that the CPC ruling mechanism has become more sophisticated during the Deng Xiaoping era. Its "ruling strategy is far more successful than its economic modernization." It has evolved from an ideological reign to one of neo-authoritarian control, whereas the students' activities are unorganized and their political demands are unspecific. Worst of all, unlike the

Philippines with Aquino, and Korea with Kim Tae-chung, the Chinese students had no pledged support from any prominent, influential leaders. Fang Lizhi showed no active participation during the demonstration. Liu Bingyan, who is now in the United States, recently has expressed loyalty to the regime, and has declined invitations to participate in any prodemocracy activities.

Remaining Influence of Cultural Revolution 40050515a Beijing XIN GUANCHA [NEW OBSERVER] in Chinese No 6, 25 Mar 89 p 17

[Article by Shu Yuan 5289 5357: "Remaining Influence of Cultural Revolution"]

[Text] Today many young people have never heard of the Central Cultural Revolution Group. But people who experienced the Great Cultural Revolution, when hearing this term today, still turn pale at its very mention. It was the headquarters that commanded the 10 years of rebellion, and it was the platform and altar from which flowed the carnage of war. It had no basis in any state law or party charter, but it overrode all state laws and party charters. In reality it replaced the Secretariat and the Politburo of the CPC Central Committee, but it was not elected by any congress. It was appointed by one man. It commanded the entire party, but was not responsible to any party organization. It was not the government, but it issued direct orders to the party, government, army, and people of the entire country. Of the members of the Central Cultural Revolution Group, every one did—that is, not a single one that didn't—hold power and influence, carried himself with the arrogance of great power, and ran amok on China's land. Among the members, those who were especially usurping and oppressive were the "big three" and the "little three." The "big three" were Central Cultural Revolution Group leader Chen Boda [7115 0130 6671], adviser Kang Sheng [1660 3932], and first deputy leader Jiang Qing. These three people were the leaders and therefore were called "big." The "little three" were Wang Li [3769 0500], Guan Feng [7070 6912], and Qi Benyu [2058 2609 4416]. These three people were ordinary members of the Central Cultural Revolution Group and therefore were called "little." The "little three" all had a scholar's class background, and in the Central Cultural Revolution Group they were the major effective writers. However, their status was much higher than that of purely "effective writers." They were imperial commissioners who, when they became the in crowd, were privy to secrets not to be discussed or even thought about; who, when they were outside, acted in heaven's name in making known certain principles for reformation; who, when they became ordinary citizens without official titles, held in their hands the imperial sword; and who, at their side, were hung the three dragonhead, tigerhead, and doghead choppers. If you dared to offend one of them by a word, you would immediately come to a bad end.

The place where power is most concentrated is always the place where the scramble for power and profit is most keen and complex. No matter whether it was the "big

three" or the "little three," both brought calamity to the country and the people, and their scramble for power and profit was keen and complex. You punch, I kick. You fire a gun at me in the daylight, I fire an arrow at you in the dark. You seize something good and come, I cast it aside and go. You divine my plan today, I look at your books tomorrow.... Therefore, because the smallness of someone's gauze cap is disliked, he is made to wear the cangue. Yesterday there was pity for the coldness of someone wearing a ragged jacket; today the "purple boa" is disliked for being long. The situation was chaotic. Your side called for my dismissal to the "threshing ground" and things were indeed exciting.

More than 20 years have passed since these things happened. At the end of 1988, Wang Li suddenly, in answer to a visitor's question when he was ill, publicly professed that he wanted, in the status of a citizen of the People's Republic of China, to make the facts clear. He said that he had not belonged to the two counterrevolutionary cliques of Lin Biao and Jiang Qing, and also said that he was a victim who had been knocked down by Kang Sheng and Jiang Qing. I personally think that he has the power to make the facts clear and that we very much hope to hear the facts. Even if they are only details and slight discrepancies that everybody knows about, they should be made clear. I carefully read his statement, but could not help being greatly disappointed. He said that, concerning the "seizing of a handful within the army" and several other issues during the Cultural Revolution, he wrote special reports and sent them to the Central Committee. Some of this material, he said, was printed and issued by the Central Committee within a certain scope. He wanted the interviewer to first read this material and then wait until he was in a little better health, when he would, strictly according to the facts, talk about the issues during the Cultural Revolution. This was extremely odd. What will be made clear to all the people in China? The special reports were submitted to the party Central Committee, which only selected some of them and then only "printed and issued" them "within a certain scope." Then, how could the people outside the "certain scope" see these materials that had been printed and issued and, what is more, how could they see the materials that were not printed and issued? Wang Li indignantly reproached "people for continuing today to use the formulation Wang, Guan, and Qi, which is an unscientific and also a mistaken formulation," but he does not scientifically and correctly make the facts clear to the people. You hear him say: "Wang Li will tell the people everything. But some issues pertaining to Wang Li touch upon secrets that the state has not made public. Whether and when to make them public is a question that must be handled under the principle of protecting the state's and the people's interests, and Wang Li as an individual cannot decide this question." Isn't this still the awe-inspiring voice of a member of the Central Cultural Revolution Group of those days, who had a murderous look on his face? You should stop making thoughtless comments; don't you know that I am an important figure who is privy to "state secrets"? Will

you take the responsibility to divulge "state secrets" and "damage the state's and the people's interests"? How is this, in the status of a citizen, making the facts clear to all the people of the country? This is the remaining influence of a member of the Central Cultural Revolution Group to shut the mouths of all the people of the country.

Precisely at the time when the Central Committee is calling for the "thorough negation of the Great Cultural Revolution," and precisely at the time when the voices for "transparency" and the "right to know" are rising higher day by day and when the advance toward the democratization of political life is being promoted, a man like Wang Li comes up and brazenly makes the Great Cultural Revolution a "state secret" in order to hinder this "thorough negation." I think this should be welcomed. It will let the young people experience a "remaining influence of the Cultural Revolution" and attend a lively class in history.

Scholar Says Marxism Must Evolve To Stay Relevant

40050497 Beijing MAKESI ZHUYI YANJIU

[STUDIES OF MARXISM] in Chinese

No 1, 20 Mar 89 pp 1-9

[Article by Li Honglin 2621 3163 2651: "The Evolution of Marxism in China"]

[Text] I wrote three articles in 1979, all published in RENMIN RIBAO. They are "What Socialism Should We Uphold?," "What Proletarian Dictatorship Should We Persist In?," and "What Party Leadership Should We Follow?"—The three articles touched off a storm when they came out. During the "antispiritual pollution" campaign, they were considered "spiritual pollution." During the "antibourgeois liberalization" campaign, they were denounced as "bourgeois liberalization."

What is being published now is fourth in this series of articles. Some people suggest that I modify the title to avoid association with the previous writings and hence stay out of trouble. But I feel that what really counts is the content, not the title. Besides, this article is part of a series; association is the very thing I want. Why should I try to avoid it?

They Are All Known as Marxism, but Actually They Are Not Quite the Same

No other theory in history compares with Marxism in breadth of scope, in the attention it captured, and in the number of supporters and detractors it attracted.

And no other theory in history has given rise to as much misunderstanding and so many different interpretations as Marxism. Even Engels himself was driven to declare that "I am not a Marxist" at a time when all kinds of Marxism were in vogue.¹ As a guiding thought adhered

to by the CPC and as its theoretical basis for policymaking, Marxism has exerted a colossal influence in China. But the party has really been adhering to different kinds of Marxism at different times. For instance, what Wang Ming [3769 2494] called "100-percent Marxism" in the 1930's was not the same kind of Marxism that Mao Zedong upheld in the 1940's and 1950's. What was touted as the "apex of Marxism" during the Cultural Revolution bore even less resemblance to what everybody recognizes as "Marxist common knowledge." Some of the theories known as Marxism led to the victory of the Chinese revolution. Others made a mess in the country. This history has already been testified to.

To uphold Marxism, therefore, we must first clarify what kind of Marxism we want to uphold.

This was the very issue that the discussion on the criterion of truth sought to resolve 10 years ago. "The two whatevers" represented one kind of Marxism. The criterion of truth represented another.

By the time the 3d Plenary Session of the 11th CPC Central Committee renewed the call that Marxism be upheld, it had turned away from the traditional viewpoints adhered to before the Cultural Revolution as well as the "apex theory" and the "two whatevers."

This change was profoundly significant, but it failed to generate much attention at the time. The reason is that the change in real life was just beginning and practice had not yet clashed sharply with the traditional mentality, so the need for a new theory was not all that acute. On the other hand, precisely because practice had not developed to a deeper level, it was not necessary for theory to advance further. Under these circumstances, the differences between the new theory and traditional theory were not readily visible. Naturally, people could not tell the real difference between the kind of Marxism then being upheld and the old version.

As reform intensified, the difference became more obvious and the situation cleared up. Ultraleftist beliefs and even some universally recognized traditional Marxist ideas were replaced by new ones. The change has been so radical that some foreign observers were prompted to declare, "China has abolished Marxism."

In fact China has not abolished Marxism. Since Marxism is a science, it cannot be abolished in one stroke even if some people might want to do so. Still the idea that Marxism has been abolished reflects one fact: the Chinese have become much more clear-headed in the way they look at Marxist ideas. Beliefs that stand in the way of modernization, whether in writing or uttered by an authority, have indeed been abolished. The new motto: "Never mind what the book says, never mind what the authorities say. Practice is the only thing that counts." Any theory must be put through the test of practice. Anything that does not conform to reality should not be upheld.

Using the Criterion of Practice To Eliminate Things That Should Not Be Upheld

Naturally the first thing to be tested was ultraleftist thought, which had done the most harm. The rectification that took place after the gang of four was smashed was just such a test.

But Lin Biao, Zhang Chunqiao [1728 2504 2890], and Yao Wenyuan [1202 2429 0337] did not fashion ultraleftist thought out of nothing. Smart as they were, they did not come up with something worthy of the name of "thought." All their "theoretical activities" amounted to nothing more than developing Mao Zedong's leftist errors to their utmost. Certainly, they committed crimes and were convicted of them, unlike Mao Zedong. On the ideological level, however, their "theory of continuing revolution under the proletarian dictatorship," which they exaggerated as the "apex of Marxism," consisted basically of Mao Zedong's ideas. Thus it is impossible to criticize ultraleftist thought without looking at Mao Zedong's wrong ideas. Needless to say, these ideas cannot be upheld.

Here I am reminded of Stalinism. The Chinese have long realized that Stalinism is not all Marxism. China's new democratic revolution, for instance, was won only after we rejected some of the errors of Stalin. After Khrushchev laid bare the true face of Stalin at the 20th Congress of the CPSU in 1965, China got to know Stalin's errors even better. Nevertheless, such understanding remained quite fragmented. After the 3d Plenary Session of the 11th CPC Central Committee, China committed itself to modernization. But since it would not work to take the beaten track again, it resolved to reform. Yet as China reformed, it kept running into the obstacles posed by traditional ideas. Only this fact made the Chinese rethink Marxism and ask themselves: Was there something wrong with our theoretical basis?

The kind of Marxism the Chinese learned was essentially an import from Russia. It consisted of the thought of Lenin, of course, but was also heavily colored by Stalin. *The Leninist Question* written by Stalin and *A Short Course in the History of the All-Union Communist Party (Bolsheviks)* edited by him were the principal texts for Chinese students of Marxism at one point. Mao Zedong regarded the latter work as "the highest condensation and summation of communist movements in the world and a model of the integration between theory and practice, the only such complete model in the world." In fact, this textbook was clearly a Russian product. Remove the universal stuff and you can see that "brutal struggles and ruthless attacks" within the party were not Marxism, only Stalinism. Apart from Stalin's works, Soviet philosophy and economic and socialist theories were also highly regarded in China from the 1930's through the 1950's. We must assume responsibility for

our own errors and not blame others for them. Yet in reviewing our experience, we can indeed see that Stalin had an enormous effect on our method of thinking as well as our social system.

At a time when China is renewing its adherence to Marxism, it is only natural that it analyzes traditional Marxist thought and remove the erroneous elements added by Stalin.

Now that we have touched on Stalinism, we cannot but do the same with Leninism. Lenin indeed furthered Marxism in a major way under the new historical circumstances. When all is said and done, however, both his thoughts and his solutions had to do with Russia. In their midst, of course, are principles of universal significance, but the extent of truth in them has yet to be tested through practice. Some of Lenin's ideas coincided with those of Marx and Engels, some did not. Lenin, for instance, advocated "inculcation." (Socialist ideas do not arise among workers but must come from outside.) Marx and Engels, on the other hand, never put forward such an idea and were particularly opposed to the notion that "workers are undereducated and cannot liberate themselves." It is natural that there are differences of opinion. Without differences of opinion, there would be no Lenin to begin with. Differences may mean development or error. In either case, ongoing study is called for. Still, Lenin's categorical rejection of the small-scale peasant economy and commodity production were obviously at odds with the objective reality of socialist construction. His "New Economic Policy" was nothing more than a stop-gap expedient, a "retreat" that was quickly abandoned in favor of an "offensive" aimed at eliminating the commodity economy completely. All these viewpoints we adopted mechanically, with disastrous results. In again upholding Marxism in the course of reform, therefore, we cannot continue to adhere to them.

To rethink the Marxist system of thought in light of the criterion of truth while upholding Marxism does not mean a wholesale return to Marx.

Like their successors, Marx and Engels were no sages. Not every word they said embodied the truth. Besides they lived in Europe in the 19th century. Conclusions that were in line with the reality then are not necessarily applicable to the 20th century. What is suited to Western conditions is not necessarily suited to China. How can there be a complete return to Marx?

A basic premise of Marx and Engels, for instance, was that the capitalist relations of production had become an impediment to the development of productive forces. They wrote in the *Communist Manifesto* of 1848, "Now...the productive forces have become too powerful for these conditions, by which they are fettered...The conditions of bourgeois society are too narrow to comprise the wealth created by them."² A century of history tells us that their conclusion was obviously out of step

with reality. The various contradictions they witnessed in the 19th century were those of an ascendant capitalism and did not signify the decline of the capitalist mode of production. In fact, the potential for the further development of productive forces under capitalism has not been fully tapped.

The world we are living in today has undergone countless changes from the one of the 19th century. We cannot demand that Marx and Engels look beyond their world and foresee developments 100 years into the future. Similarly, we should not copy the theories they formulated in the last century lock, stock, and barrel.

To uphold Marxism as a science, therefore, we must take practice as the sole criterion, testing it, and removing any mistaken and outmoded components, whatever their origins, even if they were uttered or written by the founder of Marxism himself.

What We Must Adhere To Primarily Is the Method of Thinking That Seeks Truth From Facts

Things that are to be "eliminated" we will not uphold. What then do we uphold?

Strictly speaking, it is the method of thinking that seeks truth from facts, commonly referred to as the "Marxist stand, viewpoint, and method."

Certainly, Marxism is rich in substance. Besides the philosophy of dialectical materialism, there are theories about social development, particularly laws governing capitalist movement, and socialism. Since we uphold Marxism, we must operate in accordance with the correct elements of these theories, with these qualifications:

First, no theory, however important, pervades everything, unlike the seek-truth-from-facts method of thinking. Only a method of thinking is indispensable to any individual or collective who seeks to understand and transform the world.

Second, we need to ask these questions about every single one of these theories: Are they correct? Are they outdated? They must be put to the test of practice. The process of testing theory through practice is the application of the seek-truth-from-facts method of thinking.

Third, if we are to develop Marxism, we must review the new experience in practice and replace old conclusions with new ones. This too requires the process of seeking truth from facts.

To understand Marxism as a science, therefore, we must begin by abiding by the seek-truth-from-facts method of thinking. This is most important and is precisely the ideological line established by the CPC at the 3d Plenary Session of the 11th CPC Central Committee.

Because of this ideological line, Chinese socialism has been able to turn back from the dead end of ultraleftism and embark on the road to reform.

Generally speaking, Chinese reforms over the past decade are unprecedented in the history of socialism, such as the dissolution of people's communes, the introduction of family contracting, individual economy, private economy, the weakening of centralization, increasing local and enterprise vitality, the reduction of market regulation, the recognition of the law of value, the development of a commodity economy, and the application of the competitive mechanism, so on and so forth. All these measures depart from and violate traditional Marxism; they are "revisionism" that "seeks to restore capitalism." But because we have a seek-truth-from-facts ideological line and the criterion of practice, just the opposite is true. What the CPC is upholding today is precisely true Marxism because it is consistent with the national conditions of China, promotes the development of productive forces, and improves people's livelihood. Implement the court's verdict—one which is more authoritative than all courts.

Needless to say, it is not easy to uphold this kind of Marxism. Old traditions stubbornly continue to shackle people's thinking. Not only do some people in China look askance at the reforms, but even overseas there are self-appointed "guardians" of Marxism, criticizing them in all sorts of ways. But facts speak louder than words. Where does the truth really lie? History will draw the conclusion.

Who Is To Do the Upholding? How?

In determining what Marxism we should uphold, the 3d Plenary Session of the 11th CPC Central Committee also answered these questions: Who is to do the upholding? How?

One view is that since "upholding Marxism" is one of the four cardinal principles, everybody should uphold Marxism. Otherwise it will become a political issue with serious political issue with serious political consequences.

Actually it is impossible to make everybody uphold Marxism. Even people who practice no religion cannot do it, not to mention religious believers. To uphold socialism, one must first master socialism, that is, one must have a profound understanding of it and apply it skillfully. Yet the bulk of the Chinese population have less than a middle school education and illiterates and semi-illiterates alone amount to several hundreds of millions. Can we ask them to uphold Marxism? Even if everybody in the nation is highly educated, we still cannot demand that everybody uphold Marxism because it is a citizen's right to choose what ideology to believe in.

Even within the CPC, not everybody can uphold Marxism. While all party members have the obligation to study Marxism, few have a genuine mastery of the theory. At one point, Mao Zedong hoped that there

would be 100 to 200 leaders in the party with a good grasp of Marxism. Should that come to pass, it would be much easier to run China. Facts prove that even this minimum demand was not easily met. Otherwise, we could have avoided the big detour we took after the PRC was founded and would certainly have spared ourselves the Cultural Revolution.

To whom then should we direct the demand of upholding socialism?

The CPC itself.

The CPC was founded under the guidance of Marxism. The party must uphold this philosophy yesterday, today, and tomorrow. Otherwise it will not remain a communist party. But this demand is limited to the party organizations, the Central Committee to begin with. As a collective, the party should and can do this.

To say this is not to ignore the position and function of Marxism in social life. It has been the sole guiding thought in modern Chinese history thus far because the CPC is the only leading force in Chinese society. The CPC uses Marxism not only as the theoretical basis for understanding conditions and making policies, but also as a method of thinking to mobilize the masses and get things done. To expand its ideological influence, the party must continue to propagandize Marxism steadfastly, which is part of "upholding Marxism." This kind of propaganda means persuading people with the truth, not coercing them to submit to force. It is up to the public to decide whether to accept it by thinking on their own. We must not force them at all.

Because the Chinese revolution triumphed under Marxist guidance, Marxism used to enjoy high prestige. After the PRC was founded, many people studied it with great eagerness, and for good reason. Later, as Marxism became a general compulsory obligation, public interest waned. Besides, struggle was endless in the ideological sphere, with each phase inevitably escalating into a political movement. All those branded as "anti-Marxists" were doomed to a terrible fate. This trend surfaced as early as the 1950's. By the time the Cultural Revolution broke out, Lin Biao and others not only made a fetish of what they called the "apex of Marxism," but also brutally suppressed ideological dissidents in the name of Marxism. In the process, Marxism became a completely alien element. In other words, it has been truly alienated.

This situation did not begin to turn around until the 3d Plenary Session of the 11th CPC Central Committee, when the policy of "liberating our thought and seeking truth from facts" was established. At the same time, Marxism was freed from the straitjacket of modern fetishism and regained its scientific attributes.

Since Marxism is a science, it should not and need not be given supernatural status. Nor should we or need we

force people to believe in it. Truth itself should be able to persuade and appeal to the masses.

Since Marxism is a science, it should not be afraid of criticism and opposition. Justifiable criticism will do it good because it can correct its mistakes. Groundless criticism will do it no harm. On the contrary, it only testifies to its soundness.

Since Marxism is a science, it will not stagnate or remain unchanged. Instead, it develops together with practice, not hesitating at all to replace outdated conclusions with new ones that are consistent with reality.

Since Marxism is a science, it will not be shut out from world civilization, declaring itself supreme in isolation. Instead it interacts with other scientific cultures and improves and enriches itself through conflicts and assimilation.

The new era of Marxism as a science began in China as soon as the "two whatevers" were replaced by the seek-truth-from-facts ideological line. Owing to inertia, however, traditional ways would not exit from the stage of history for some time to come. Occasionally, people still seize on others' weaknesses, put labels on others, and come down with the big stick, all in the name of "upholding Marxism." The policy of "letting a hundred flowers blossom and a hundred schools of thought contend," reiterated many a time by the CPC, has always had difficulty in becoming reality. Still, from a historical perspective, these phenomena are spent forces carried over from the past. Today people are really fed up with them. Whenever they appear on the stage, the masses routinely treat them with disdain. There may be a few vulgar cheers, but, on the whole, they are surrounded by a sea of frightening indifference.

History is moving forward. Coming down with the big stick in the name of Marxism will probably not disappear totally in the future, but what is certain is that such perversity will arouse much stronger public opposition and its perpetrators would meet with a more wretched fate.

Whether people realize it or not, whether they like it or not, and however great the resistance and many the complications, a new age for the development of Marxism has arrived. The Marxism we uphold today is a far cry from that in the past. Traditional stuff will stay behind with history. A new chapter has opened.

Footnotes

1. *Selected Works of Marx and Engels*, Vol 4, p 474.
2. *Selected Works of Marx and Engels*, Vol 1, p 256-259.

Articles Trace Miscarriage of Justice Due to Personal Connections

Murderous Attack, Coverup, Trial Detailed
40050403b Beijing XIN GUANCHA [NEW
OBSERVER] in Chinese No 5, 10 Mar 89 pp 2-5

[Article by Dai Huang 2071 3552: "Covered by a Thickly Layered Network"]

[Text] During the late summer or early fall of 1988, I received a very thick letter from a reader in Xichang City who was a stranger to me. The letter began as follows:

More than a month ago, a horrifying murder case and a "living Duke Bao" came to notice here in Xichang City, the seat of the Liangshan Autonomous prefecture government in Sichuan Province. Not only was there a public trial of this case such as had never been seen in Liangshan Autonomous Prefecture, but one such as has rarely occurred in all Sichuan Province or even the entire country. I have devoted a lot of energy and gone through a great deal to collect several formal pieces of data relating to this case, which I am now turning over to you for your reference...

What case is this? It is a case in which Ji Xiaoyong [1323 1420 0516], the son of the deputy head of the autonomous prefecture committed murder. The "living Duke Bao" is a public prosecutor in the autonomous prefecture's procuratorate, Zeng Xianyuan [2582 2009 0337]. He dared to offend the prefecture's authorities and their "powerful" personal relationship network before more than 3,000 people inside and outside the courtroom. He vehemently denounced the criminal acts of criminals that make one's blood boil, and various despicable activities of "personal relationship networks." The audience burst into frequent applause that filled the hall, and tears poured down their cheeks.

Murder at the "Hideaway"

The "Hideaway" restaurant is located in downtown Xichang across the street from the "Long March Theater" about 100 meters distant from the statue of Liu Bocheng [0491 0130 2110], and Little Yedan [0673 0030]. [sic]

On the evening of 11 September 1987, Luo Minglan [5012 2494 5695], a people's armed policeman at the Xichang railroad station police station who was the son of an old county magistrate in another county, took a young unmarried woman named Xu to go to a dance at the "Animal Husbandry, Industry and Commerce Dance Hall." After the dance, several young men who knew this young woman followed along behind her calling out, "Young Xu. Young Xu. There's a little matter..." Luo Minglan felt that these people were purposely poking fun, and he vowed: I'll get some buddies and fix this bunch!

When he returned to the railroad station, Luo Minglan happened to run into "Old Four Ji" who was strolling around the railroad station like an "alley cat." He invited him to eat at the "Hideaway" at 5:30 in the afternoon 3 days hence, and then go with him to "have it out with" that gang.

As soon as he heard there was a fierce battle to be fought, "Old Four Ji's" whole body came alive. "Of course, I'll help you stick it to them!"

At a little after 5 pm on the afternoon of 13 September, Luo Minglan, "Old Four Ji," and a cadre from the labor reform farm, Xiong Xiaodong [3574 1420 2639], together with "helpers," six people in all, went to the "Hideaway" Restaurant where they selected table number 4 and ordered a table full of food and drink. Luo Minglan, Xiong Xiaodong, and one other man drank hard liquor, and Ji Xiaoyong and two others drank beer, throwing the empty bottles on the floor not caring that they got in the way of customers coming and going.

Just when the party was at its height, and as they were both playing the finger-guessing drinking game and planning the steps they would take in the "brawl" afterward, a stranger walked into the restaurant...

His name was Zhong Wenfu [6988 2429 1381], a worker in a small handicraft plant at Liulichang Township in the suburbs of Chengdu, who had left his home village long ago to make a living as an upholsterer in Xichang. He had just sat down at number 2 table when suddenly he saw a familiar person flash by the door on a bicycle. He ran out after him at once. It was his good friend and fellow villager, Jiu Xiangcheng [6726 4161 2052], who also upholstered and sold sofas in Xichang. He invited Jiu Xiangcheng to come into the restaurant and join him for a couple of drinks.

Jiu Xiangcheng walked ahead, Zhong Wenfu following. Hurrying along too fast, as he passed table 4, Zhong Wenfu hit one of the empty beer bottles that "Old Four Ji" had thrown on the floor. "Old Four Ji" did not know him, but he knew this son of the deputy head of the prefecture. He quickly bent over to pick up the beer bottle, repeating "Sorry, sorry" at the same time. Xiong Xiaodong said, "Hit him," and "old Four Ji" delivered two blows to the back of Zhong Wenfu, who was bending over to pick up the beer bottle, cursing him as he hit him.

"Are you as blind as a bat? Do you dare bully me, 'Old Four Ji'?"

"Sorry, Fourth Older Brother Ji, sorry..." The 36-year-old Zhong Wenfu, though more than 10 years older than "Old Four Ji," still called him "Fourth Older Brother" by way of being apologetic.

Jiu Xiangcheng, who had already reached table number 2, turned around when he heard the thumping, name

calling, and shouting behind him and asked: "What's going on? What's going on?"

At that, Xiong Xiaodong and Luo Minglan swooped down on him. One pushed Jiu Xiangcheng against the wall with all his might and pinned his neck tightly. The other seized a small bench and brought it down fiercely. Jiu Xiangcheng quickly dodged it and the bench smashed into the wall with a "boom," two of its legs breaking. Jiu Xiangcheng was so frightened that the color drained from his face and his whole body broke out in a cold sweat.

Now "Old Four Ji" pulled out the paring knife that he had originally planned to use in the "brawl" after finishing eating and drinking. He took aim at the left thigh of Zhong Wenfu, who was continuing to bow in apology, and stabbed viciously, severing the femoral artery at once. The blood spurted out. Zhong Wenfu clutched the wound tightly and continued to beg, "Old Four Ji," "You hit me, you cursed me, and you tried to kill me. Now let me go. You blame me for not being careful; I'm sorry..."

"Let you go?" Ji Xiaoyong pushed him back to the ground, striking and kicking him. Zhong Wenfu, whose whole body was curled like a shrimp and madly squirming back and forth on the ground, still kept begging, "Enough, Fourth Older Brother Ji... Enough, Fourth Older Brother Ji..." As he begged, the blood spurted forth all over the ground.

The customers quickly put down their bowls and chopsticks and took to their heels. The restaurant no longer cared about ration coupons and money; business halted at once. This was the time when shifts were changing, so there were hundreds of onlookers. Traffic was blocked in the center of this bustling city.

"You tried to kill him, so stop it!" some of the more courageous onlookers shouted to "Old Four Ji." At this, Ji Xiaoyong left Zhong Wenfu, but he raised the knife and stabbed at Jiu Xiangcheng. Although the onlookers suddenly blocked him, the skin on Jiu Xiangcheng's left thigh was cut open and bleeding. His throat was already bleeding from Xiong Xiaodong and Luo Minglan choking him.

Zhong Wenfu, who was writhing on the ground in pain, was covered with blood by now and had collapsed unconscious into a pool of blood. Seeing the situation was not good at all, Old Four Ji and Xiong Xiaodong fled without caring whether Zhong Wenfu lived or died.

Jinyang County public security cadres, Comrades Luo Jianxin [5012 1696 2450] and Jia Balashi [6328 1572 2139 0670] of the Yi Nationality, who were visiting Xichang on official business, just happened to be passing by at the time. Witnessing this dire situation, they ran into the street at once and halted an automobile to take

the blood covered Zhong Wenshu to the nearby Autonomous Prefecture No 1 People's hospital for emergency treatment.

However, after 1 hour of rescue efforts, he died!

People ran about telling each other, "'Old Four Ji' tried to kill someone, and this time he killed him." The news spread farther and farther till it was all over Xichang City, Big and Little Liangshan, and along the entire Chengdu to Kunming railroad line, as well as Zhong Wenfu's native village. Zhong Wenfu's nearly 70 year old father and mother wanted to die of grief. His old mother, Qiao Yuhua [0829 3768 5978], was sent to the hospital at once for treatment incurring a debt of more than 2,000 yuan. His tearful wife, Zhang Huirong [1728 1920 5554], hurried to the emergency room of the Autonomous Region No 1 People's Hospital, taking with her a 10-year-old daughter and a 6-month-old baby. She fell upon her husband's remains and wailed uncontrollably. Her daughter, who was old enough to understand, also screamed with sadness, "I want daddy; I want daddy..."

Xichang City, with a population of several hundred thousand, was filled with raging fury. People termed this the "September 13 Affair."

The Power and Prestige of the "Cabal"

Ji Xiaoyong, unprepossessing and ferocious looking, was just 22 years old when he committed the crime.

Why was he so vicious? This is a story that takes some time to tell.

Ever since he was small he had always felt he was several heads taller than the other kids simply because his dad was an official. In 1981 when his dad, Ji Mingchun, was still CPC committee secretary in Butuo County, he was unable to continue to be "tops" in a primary school in the county seat, so he had no choice but to "go into society." He was just 16 years old at this time and had no skill at all, yet he was able to get hold of a sinecure in a county movie company with no trouble.

Of course, this was only where he hung his hat. His "real work" was eating, drinking, and having a good time, along with beating and cursing people.

If the patrolling armed police corrected him, he would strike them; and when the criminal investigation department of the Public Security Bureau warned him to behave himself, he would hit them too. When some tourists from Hong Kong and Macao in Butuo County shook their heads and sighed when they saw him abusing people, he pushed his way forward and said nastily, "I am the son of the CPC Committee secretary. What are you going to do about it?"

Once when he slashed a man named Zhao Qingzhang [6392 1987 4545] for no reason at all, and the Public Security people sent someone to the scene as soon as they received word, as soon as they saw it was "Old Four Ji," they didn't even look around the site, but simply turned around and left.

The injured man and his family were unwilling to relent, however. Someone said that "Old Four Ji" had a "mental disorder," paid some money, and the matter came to an end.

In 1982 when County CPC Committee Secretary Ji Mingchun became deputy head of the autonomous prefecture, naturally "Old Four Ji" and his three younger sisters and two younger brothers moved with their father to Xichang City where he also quite naturally became a member of the autonomous prefecture's motion picture company. This position added just the right amount of weight to his pet phrase, "I am deputy prefecture head Ji's son!"

Isn't it the truth? The domain in which he could loiter was larger, and conditions for forming gangs were better. Eating and drinking in restaurants without paying, and smashing the dishes for fun were just trifling matters. Beating people, cursing people, and stabbing people were not extraordinary either.

He viciously beat Wu Chengde [0702 2052 1795], the head of Xichang Municipal Government Information Section, for no reason at all, but when he was taken to a nearby police station, the station chief shook his head upon seeing him and said, "We cannot control this son of the prefecture head." He beat a man on Downhill Road in the old west gate section of Xichang, a place that the local people call "West Gate Slope." Zhang Jinkang [1728 2516 1660], a cadre in the prosecution section in the autonomous region procuratorate and a regular member of the Communist Youth League, just happened to be passing by and hurried to restrain him. "Old Four Ji" roared loudly, "I am prefecture head Ji's son. What do you dare do to me?"

Happily the director of the autonomous prefecture Public Security Office, Ma Muming [7456 2606 2494], was also passing that way, and quickly had Zhang Jinkang take him to the police station. The people at the police station simply said, "We cannot control this son of the prefecture head," and released him at once.

An automobile smuggling case that was billed as a "donation from compatriots in Hong Kong and Macao" was concocted in Liangshan Autonomous Prefecture. Ji Mingchun, the deputy head of the prefecture, was an important participant. (For details, please see the article titled "Power Conjurer" in issue 5 of DANGDAI [MODERN TIMES], 1988. Zhang Yue, [1728 1471] a cadre in the Sanchakou Industrial and Commercial Office of the Xichang Municipal Bureau of Industry and Commerce, a man with no fear of power and influence,

actively investigated the matter both thoroughly and painstakingly. On the night of the second day following the lunar new year in 1987, "Old Four Ji," accompanied by a man wearing a People's Armed Police uniform, intercepted Zhang Yue in an out-of-the-way narrow lane while carrying his own son on the way home. "Old Four Ji" held a dagger at Zhang Yue's throat and said as he moved it back and forth: "I'm warning you. No more of your talking about goings-on in the prefecture! If you do, I'll teach you a hard lesson!"

Early the following day, Zhang Yue reported the matter to the Xichang City Municipal CPC Committee secretary, the Municipal CPC Discipline Committee Deputy Secretary, and the Municipal CPC Committee deputy secretary in charge of politics and law. The secretaries gave him some advice on what to do. They told him that he was out in the open, while the scoundrels remained hidden: It is best that you stay at home at night and not go out.

As for "Old Four Ji," they had nothing to say.

As a result, in less than 7 months, the "Hideaway Murder" happened. Everyone had stood more than they could stand, and demanded that the authorities punish the murderer severely to rid society of this scourge. Three days after the event, someone wrote a letter to the public security authorities saying, "If you do not punish severely and quickly this 'Ji cabal', these 'Ji tyrants,' and other hooligans who rampage through the streets and lanes, we intend to organize a 'beat dogs brigade' to severely punish these 'dogs' who prey upon people."

People also commented as follows:

"Let us see how the Liangshan public security organs, procuratorial organs, and peoples' courts can run this performance so that everyone is equal before the law, and evil is removed for the people!"

A Difficult Performance To Render

Never mind anything else, a simple look at the lineup arrayed against them without even scrutinizing the layer upon layer of personal relationship networks and protective strata as well as the enormous forces "willing" to render services to it was enough to make some people in the public security organs, procuratorial organs, and peoples courts shrink from action.

Ji Xiaoyong's older sister is a judicial officer in an intermediate level people's court in the autonomous prefecture; his second sister is the daughter-in-law of the deputy secretary of the autonomous prefecture's CPC committee, and his third sister is head of the personnel placement section of the autonomous prefecture's Labor Bureau; his fifth younger brother, who is known as "Old Five Ji" has a position in the autonomous prefecture Public Security Office; Luo Minglan's younger sister is the director of personnel in the autonomous prefecture

CPC Discipline Committee, and is also the daughter-in-law of autonomous prefecture deputy secretary Shi Jiaming [2457 0857 2494]; Xiong Xiaodong's father is the chief magistrate of the Jingge County Court, and is related to the deputy secretary of the autonomous prefecture CPC committee, Luo Kaiwen [5012 7030 2429].... No wonder people shake their heads, hold their tongues, and live in fear of getting into hot water? Some people just go about their daily lives, visiting relatives and tending the sick as necessary, but keeping as far away from them as possible to avoid future trouble.

See, didn't I tell you? No sooner did the Xichang Municipal Public Security Bureau begin a pretrial investigation of "Old Four Ji" than someone with a certain amount of status went to the Public Security Bureau to raise a hue and cry about Ji Xiaoyong having a "nervous disorder," having a "nervous disorder after alcohol poisoning," having an "epileptic nervous disorder," and being "congenitally retarded." Furthermore, proof of hospital diagnosis and treatment for all these disorders was offered. Punishing him "should proceed with circumspection," and "every effort should be made to show leniency." "Otherwise," someone threatened Public Security Bureau Deputy Director Zhong Kecong [6988 0344 5115], "We shall see!"

Retreat? There can be no retreat. "Impartial law enforcement" cannot be merely a high sounding phrase!

"Proceed with circumspection?" Everything should "proceed with circumspection," especially a matter "involving a human life"!

Deputy Bureau Director Zhong Kecong directed comrades in charge of the investigation to proceed along several lines. They both looked into Ji Xiaoyong's case history of examination and treatment for illness and also went to his native village in Ganlao County to check on whether his ancestors for three generations back had a "history of nervous disorders."

Next, they acted on the request of Ji Xiaoyong's kin to have Ji Xiaoyong taken to Chengdu in the company of the Public Security Bureau personnel handling the case and a legal medical expert. There they had noted professors of medicine and experts in forensic medicine from West China Medical University and the Sichuan Provincial Forensic Medicine Society give Ji Xiaoyong a complete "physical examination," "laboratory tests," a "mental checkup," and a "nervous system examination," everything possible being thus checked.

On 6 December 1987, the professors and experts primarily responsible for this series of checks, Liu Xiehe [0491 0588 0735], Zhang Rongsong [1728 2837 2646], Zhang Wei [1728 0251], and Huo Kejun [7202 0344 6874] wrote up the conclusions of their examinations and affixed the big red seals of the legally responsible "Forensic Medicine Society of West China Medical

University" and the "Sichuan Province Medical Society." The report said as follows:

The person evaluated, Ji Xiaoyong, is suffering from slight retardation of mental development. At the time he injured a person on 13 September 1987, he was fully aware and able to bear responsibility.

The Xichang Municipal Public Security Bureau and Procuratorate, and the autonomous prefecture intermediate level procuratorate unanimously believed such an evaluation to be scientific, credible, and fully in keeping with Ji Xiaoyong's actual condition at the time he committed the "September 13" crime, the evidence being as follows:

At the time of the crime, when Xiong Xiaodong told him to hit Zhong Wenfu, Ji Xiaoyong responded to the command at once and attacked with his fist. After he had mortally injured Zhong Wenfu, and stabbed Jiu Xiangcheng once, when he was restrained by Xiong Xiaodong, he did not stab him a second time but held back. When he saw Zhong Wenfu covered with blood, lying unconscious, and in danger of dying, he threw the weapon on top of the "Hideaway" fearing that he would be found with it, rather than being completely unconcerned. When Xiong Xiaodong and another person took him to the laundry area in the courtyard of the prefecture athletic committee and told him to wash the blood from his body, he quickly washed himself spic and span, and he directed them to go to the "Hideaway" to find out whether the victim was alive or dead. When he learned that the victim had died in the hospital, he raced back home to get money and ration coupons. He then directed someone to buy two packages of "Red Pagoda Mountain" cigarettes and call a taxi so that he could flee. Fearing he would be held responsible for sheltering a criminal, the person he directed took him to Old Four Chen's house at the grain station near the city gate. He asked Old Four Chen to play Chinese chess with Ji Xiaoyong, and Ji Xiaoyong "took out his horse with a cannon" at the very beginning without any fooling around. When the person who feared being held responsible for sheltering a criminal called Ji Xiaoyong's younger brother, Ji Xiaogang [1323 1420 0474], and their brother-in-law, He Guoqing [0149 0948 3237], they slapped Ji Xiaoyong and ordered him to turn himself in at once to the Public Security Bureau. He obeyed immediately without foolishly resisting. Following his formal arrest on 26 September, he was as lucid as a normal person throughout while being held at the detention house in Xihe, evidencing no mental disorder...

Therefore, when the Xichang Municipal Procuratorate turned the files over to the Liangshan Autonomous Prefecture Procuratorate on 30 December 1987, it specially emphasized the need to punish Ji Xiaoyong severely.

On 5 May 1988, the autonomous prefecture procuratorate turned over to the autonomous prefecture intermediate level court both the indictment and the investigation files, asking that the court set a trial date for this

case as quickly as possible in accordance with the provisions of "criminal litigation," and severely punish Ji Xiaoyong.

However, the intermediate court turned a deaf ear to the request of both the autonomous prefecture and the municipal procuratorate to proceed according to law. Since many people were "fearful," comrades at the criminal courtroom were naturally a little fearful as well, as was the deputy magistrate concerned.

They went off to coax an assistant department level judge, Tang Yiyuan [0781 6146 6678], out of retirement in the mountains only to be refused by the old experienced judge who said, "Whoever heard of such a thing! I won't do it."

Next they tried to get the more than 60-year-old and about-to-retire criminal court deputy magistrate, Lei Shengzhi [7191 5110 2535]. Old Lei, they said, you're an old comrade who is about to retire. Just look at this as being your final watch, and once you stand it, you can take it easy...

Lei Shengzhi accepted reluctantly. Next they got a "volunteer from outside the court," forestry court judicial officer Zheng Guorong [6774 0948 2837], and a judicial officer from their own court, Jin Zuhao [6855 4371 3185]. A group was thus knocked together for the court trial of the "September 13 Case." Nevertheless, people surmised that some troubles would pop up.

Deputy magistrate Luo Guoquan was Deputy Prefecture Head Ji Mingchun's fellow villager and best friend. Reportedly, he would have to disqualify himself. He himself publicly stated that he "should disqualify himself," but actually he became the court officer in charge of trying this case.

Jin Zuhao, a member of the trial group, had been a subordinate of the deputy prefecture head for many years.

Of particular note, along the way another baleful figure appeared. It was Luo Shixun [7482 0013 8113], the forensic doctor in the autonomous prefecture public security bureau. He had nothing whatever to do with judging this case, nor did anyone invite him for a forensic evaluation in the case, but he "devoted his courage and energy" to "defend against injustice" the son of this old fellow villager, autonomous prefecture deputy director Ji. "I am a forensic doctor," he said. "Old Four Ji has a mental disorder; he cannot be sentenced to death."

One day he happened to meet the prefecture prosecutor, Zeng Xianyuan, to whom he said vehemently, "I am going to stand on the side of the lawyers to fight you prosecutors!"

Article 125 of the "Criminal Litigation Law of the Chinese People's Republic" provides that once a court

receives an "indictment," it must call the court to order and begin trial in no more than 45 days. In accordance with this provision, it would be necessary to erase the statement about "being able to bear responsibility" before the trial began on 21 June.

On 7 June, 13 days before the beginning of the trial, Luo Shixun and intermediate court judicial officer Jin Zuhao borrowed from the pretrial section of the Xichang Municipal Public Security Bureau four photographic plates of the Ji Xiaoyong's head that the expert professor in Chengdu had made in his examination. The following day, they took them to Chengdu where they presented them to Professor Li Nengde [2621 5174 1795], deputy director of brain surgery at West China Medical College No 1 Hospital along with the following note: "Suggest further joint mental and neurosurgical evaluation of head CAT scan and electro-encephalogram specially brought from West China Medical University No 1 Hospital."

On 11 June, just 9 days before the trial date, Ji Xiaoyong's wife acted on such a "suggestion," saying that she had "recently" sent Ji Xiaoyong's past record of illness to the West China Medical University No 1 Hospital for Li Nengde, professor of neurosurgery, and deputy director of brain surgery, and that she had written an "application" requesting reexamination of Ji Xiaoyong's nerves. Actually, she had never gone to the hospital, and this "application" was not in her handwriting, nor did it carry her thumbprint or personal seal. It was completely invalid. Furthermore, such an "application" from the wife of an as yet unconvicted criminal had no legal validity.

However, on 15 June, just 5 days from the trial date, the intermediate level court acted on this completely invalid "application." It wrote a "report" in the name of the "criminal court" to send Ji Xiaoyong to Chengdu for another CAT examination, and requested that the municipal public security Bureau and the autonomous prefecture procuratorate jointly send someone there. Both the municipal public security bureau and the autonomous prefecture procuratorate flatly refused. Prefecture prosecutor Zeng Xianyuan told Jin Zuhao, the judicial officer who had sent the "report," "I wish that a legal official like you would uphold principles, and uphold the 'equality of everyone before the law.'" Jin Zhao said, "The 'equality of everyone before the law?' That's easy to say but hard to do! I'm not in position to decide. I do whatever the judge says."

On 20 June, just one night away from the trial date, a party consisting of Jin Zuhao and some others, together with two people's armed police, removed Ji Xiaoyong from the detention house, but not to take him to court. Instead, they sped directly to Chengdu.

Two "reexaminations" were made on the 22nd and the 24th. Luo Shixun and his "escorts" had Ji Xiaoyong eat some peanuts while he drank four liang of strong liquor by himself. Only after this as-yet-unconvicted criminal had become red-faced and crimson-eared, gone through

being nervous and upset, lost the ability to control himself and been rehandcuffed only to continue fighting by himself did the two armed policemen, two nurses, and his lawyer Mao Huazhen [7456 2037 3791] subdue him. They waited until his drunkenness deepened and he was in a stupor before telling the doctor who ran the CAT scan to start the machine to make a final "reexamination" of his head.

"This time it is a success! This time, there are 'results!'" the "greatly trusted" man shouted happily.

The "results" were as follows: Ji Xiaoyong had a traumatic cranial mental consciousness disorder. His evaluation of 5 December 1987, which said he was "responsible for his actions," would have to be changed to "limited responsibility for his actions."

Thus "leniency" could be shown at the time of sentencing!

Ji Xiaoyong was still unconscious when this occurred. In the vehicle on the way from Sichuan Hospital at Huaxiba to the Ningxia Street prison, he vomited a great deal without being aware of it. On 30 June, when he was returned to Xichang, 4 days had passed since the "reexamination," yet he still complained constantly about a headache and dizziness. Clearly there was a great difference in the "power" of those 4 liang of liquor and the ½ jin of beer he drank before the crime.

Those in charge of his court appearance knew very well that although the "results" were all they had wished for, the way in which they had been obtained was scandalous, and they would have to keep their mouths tightly sealed.

On the evening of 4 July, 14 days after the trial was to have begun, the prosecutor, Zeng Xianyuan, and the head of the prosecution section, Yang Zhonghai [2799 1813 3189] asked the court trial director, Lei Shengzhi, "how the Chengdu reexamination results had turned out" on Ji Xiaoyong. Lei Shengzhi replied ambiguously: "not clear," and "not much change."

The procuratorate was never told of the "reexamination" results either on 7 July when the court sent a notice to the procuratorate, or even on 12 July when the trial formally began.

However, if one does not want others to know something, they should not do it. Rage boiled up once again in both Xichang City and Liangshan Prefecture. At a meeting of the Xichang Municipal People's Congress, and later at the Liangshan Autonomous Prefecture People's Congress, delegates raised the following kinds of queries: Formerly "you could not sentence a doctor," but now "you cannot sentence a doctor's son." This is the limit! Formerly, "Only prefecture officials could commit arson, but the common people could not light a lamp." Is it possible that today "only prefecture officers can kill people, and the common people cannot redress injustice?" Where will this lead?

In the detention house, criminals grumbled: Things are different for an official like "Old Four Ji." If we break the law, we're punished. They killed a man almost a year ago, and they're still "playing tricks."

A criminal sentenced to death for killing his wife said, "If 'Old Four Ji' is not sentenced to death, after I die I'm going to complain to the King of Hell!"

A Moving Public Prosecution—1

The trial was conducted publicly in the Xichang auditorium.

This auditorium faces south on Shuncheng Street. It is the finest gathering place in Xichang. Twelve steps up from the sidewalk is a wide parking lot, and another 24 steps lead from the parking lot to the columned front of the large auditorium.

The auditorium seats 1,428 people on the ground floor and in a balcony. On both sides are "emergency exits" with blinking red lights, each exit leading to a spacious courtyard. All around the courtyards and parking lot are tall silk oaks and conifers that provide dense shade. This magnificent structure, which was designed by Zhang Jingbo [1728 7234 3134], vice-chancellor of Liangshan University, has been the pride of Xichang's residents for many years.

Who would have thought, however, that on 12 July 1988 this imposing edifice would be the unhappy location for the trial for murder of the son of a "prefecture official."

Not one of the more than 1,400 seats in the auditorium was empty from very early in the morning. Furthermore, the corridors, emergency exits, windows, and every place where people could stand or stick in their heads to look were filled with an ever increasing number of men and women, the young and the old. Even though radio stations had forecast that today's temperature would reach 31.9 degrees C, a rare temperature for the Xichang Basin where it is warm in winter and cool in summer, people would rather pack together till their bodies were covered with sweat rather than miss such a fine opportunity. No local "father and mother" official, nor the local "father and mother official" above this local "father and mother official" had ever had such an exceptionally grand audience, no matter what "important report" he was giving.

It is 8 o'clock. The trial judge, Lei Shengzhi, judicial officer Jin Zuhao, and the judicial officer brought in from the Forestry Court, Zheng Guorong, as well as assessors and secretaries, enter and take their seats beneath the imposing national emblem suspended overhead on that 18 meter wide and 12 meter deep stage. The procurator court prosecution section chief, Yang Zhonghai, and the public prosecutor, Zeng Xianyuan, as well as the defense lawyers for the accused, take their seats at the same time on each side like two armies drawn up for

battle. The accused, Ji Xiaoyong, Luo Minglan, and Xiong Xiaodong are held in the accuseds' seats below the stage. The audience inside and outside is solemn and silent, their eyes wide open to watch quietly how this trial, which was slow in coming, will proceed.

The judge calls the court to order. To the surprise of everyone, the first one to rise to speak from the prosecution side is not the head of the prosecution section, Yang Zhonghai, who is responsible for reading aloud the "indictment," but the prosecutor, Zeng Xianyuan.

He is a stocky man 1 meter and 60-odd centimeters tall, and a "four finest" person among the 10-odd members of the prosecution section. He is 51 years old, the oldest of the group. In 1956, he joined the army and is the most qualified of the group. Before the wage reform, he held an administrative grade 19, the highest rank. He completed 1 year of junior middle school, so he is the least educated. However, he has never smoked nor drunk, and he has devoted himself to reading and doing practical work. Ordinarily he is not fond of talking, and when he has to talk he is straightforward. In 1987 more than 10 of the personnel in the entire procuratorial system in Liangshan Prefecture received awards, but only three of them simultaneously received the "outstanding prosecutor" award, and the award for being an "advanced person in doing 'serious battle' for 3 years." Zeng Xianyuan was one of the three. When the procuratorate received the municipal procuratorate's files on the "September 13 Incident," the procurator general, Jing Wuzeng [2417 0063 2582], told him, "Old Zeng, you prosecute this case. Section chief Yang Zhonghai will be in charge, and you will work with him. No matter whose son breaks the law, we must uphold the equality of everyone before the law." He replied, "Since you permit me to carry a part of the load, I will carry it well."

Now, before the the more than 2,000 pairs of eyes below the stage, this Communist Party member from a peasant family in Rong County in Zigong City is in no hurry to prosecute Ji Xiaoyong and the others. Instead he recites the court's illegal actions and demands that the court correct them at once; otherwise, there will be no court session today.

He says:

Your Honor, and visiting citizens:

Article 5 of the "People's Republic of China Procuratorate Organization Code" provides that procurate courts are authorized to monitor whether the trial activities of people's courts are legal. Article 112 of the "People's Republic of China Criminal Prosecution Code" provides that should prosecution personnel appearing in court find trial activities to be in violation of the law, they are authorized to propose to the court their views for correcting them. (The audience immediately bursts into enthusiastic applause).

We have found that the Liangshan Prefecture Intermediate People's Court committed the following violations in the hearing of the hooliganism case in which Ji Xiaoyong, Luo Minglan, and Xiong Xiaodong purposely injured a person causing his death— (During the applause, some people shouted, "The people support you. Anybody's violation of the law must be exposed!")

Zeng Xianyuan continued—After Zhong Wenfu was killed on 13 September 1987, his wife, Zhang Huirong [1728 1920 5554], wrote a letter on 26 November to which she appended records of the civil lawsuit. Our Liangshan Prefecture procuratorate also explicitly mentioned this in its 3 May 1988 indictment; therefore Zhang Huirong became a plaintiff in the civil suit connected with this case, and is also one of the participants in this criminal case.

On the morning of 14 June, Zhang Huirong made a special trip from Chengdu to Xichang to inquire of the intermediate court leaders when the trial would be held, and asked that she be notified before the beginning of the trial. The deputy magistrate, Luo Guoquan [5012 0948 2938], replied, "We will post a public announcement of the time of the trial. You can come see the announcement." Zhang Huirong asked, "I live more than 1,000 li away from here in a rural village in the suburbs of Chengdu. How can I read an announcement that I do not know when you will put up?" Deputy magistrate Luo had to reply, "You will be notified before the time."

On 7 July, our court received notice to appear in court, but when the court was called to order today to begin this trial, there was no sign in the court of the plaintiff, Zhang Huirong. Consequently, I asked the judge, and the judge replied that she had not been notified.

Thus, today's trial violates the provisions of Section 3 of Article 114 of the "Criminal Litigation Code," namely the provision whereby criminal and civil litigation in the same case must be heard at the same time. This is to say that the court could act in accordance with the provisions of Article 54 of the "Litigation Code" to divide criminal and civil suits in the same case into two separated trials, but it should tell the civil suite plaintiff, Zhang Huirong. In addition, in providing the prosecuting organ notice to appear in court in connection with the criminal litigation, it should likewise give notification or advise orally. However, the court did not do this, and this is one violation.

(Enthusiastic applause all around.)

After the sound of the applause had died down, Zeng Xianyuan disclosed in detail how the intermediate court persons in charge of the case had worked together with Luo Shixun, the forensic doctor, and others in the prefecture public security department who had no business being involved in this case, to conduct the "peculiar reexamination of Ji Xiaoyong" in a premeditated effort to cover up his complete ability to bear responsibility for the "September 13" criminal acts.

As regards the so-called "reexamination results" from the second Chengdu "examination" of Ji Xiaonong, right up until the beginning of the trial today, the intermediate court did not take the initiative to provide the prosecution organ any information. Nevertheless, the counsel for the accused, who is present here today, has mimeographed copies of this second "conclusion." Just what is going on? (Applause) Can this action of the intermediate court be considered legal? (Applause)

...I believe that those concerned with the case in the Xichang Municipal Public Security Bureau, the Municipal Procuratorate, and the Autonomous Prefecture Procuratorate, as well as the lawyers sitting in the counsel's seat today, who have read all the data related to the case, cannot believe, nor should they believe, that the conclusions reached after Ji Xiaoyong drank two 4 liang of hard liquor should be a basis for establishing criminal responsibility. (Applause all around.) ...The often-repeated statements of the other two accused, Luo Minglan and Xiong Xiaodong, as well as of others concerned, show that when Ji Xiaoyong committed the crimes, he had not drunk hard liquor. The incident occurred after the three had just drunk 1 ½ bottles of Golden River beer. Ji Xiaoyong was not at all drunk at the time, and this can be demonstrated from a series of things he did and statements he made after the incident. (Applause all around.) For the court to engage in a "leading investigation such as is prohibited in all countries of the world having a legal system is a second offense!" (Enthusiastic applause all around.)

However, after the intermediate court finally received the second "reexamination conclusions," Comrade Luo Shixun, the forensic doctor from the prefecture public security office, said, "Now the prefecture procuratorate will be 'in a panic!' We can say confidently that in the handling of this case, the leaders of the prefecture procuratorate and all the police are able to bear the scrutiny of the law and the people...We have not done anything to be ashamed of. Therefore, we are not 'in a panic.' We are morally above reproach." (Thunderous applause all around.)

The above two facts show that today's collegiate bench has committed serious violations of the law that will adversely affect the public trial of this case. For this reason, the prosecution asks that the court be adjourned, and that the trial begin again after the intermediate court has made amends.

At the conclusion of Xeng Xianyuan's presentation, applause rang out for a very long time.

After a brief urgent consultation, it was decided that the trial would continue. Yang Zhonghai, the head of the prosecution section, read the "indictment" aloud. The trial judge made a court examination of the defendants. At lunchtime, the judge announced that the court would continue at 2:00 pm

A Moving Public Prosecution—2

The unprecedentedly brilliant scene at the court in the morning was transmitted throughout the city at once by countless "oral broadcasting stations." In order to hold on to their places, many of the onlookers preferred not to return home for lunch. Instead they satisfied their hunger with steamed bread and flat bread. More and more people congregated. The auditorium was very quickly filled to the rafters, with two or three people squeezed shoulder to shoulder in many seats. Those who arrived late on foot had nowhere to go but the car park in front of the main entrance, and the courtyards on both sides of the auditorium. Some of them squeezed into standing spaces under the shade trees all around. Even more simply stood or squatted in the boiling sun, sweat running down their backs. There were more than 3,000 people inside and outside the building, almost double the number in the morning. Those responsible for maintaining order in the court had to erect several loudspeakers outside the main entrance and in the courtyard so that the audience outside the chamber would not miss a word of the court proceedings.

At precisely 2:00 pm, standing beneath the huge national emblem, the trial judge, Lei Shengzhi, announced that arguments would begin. The first to make a statement was Zeng Xianyuan. His long, square-jawed features the picture of health, and his eyes open wide, he spoke in a sonorous and deep voice.

"Before beginning the formal prosecution, I ask that the organizers of the court and all visiting comrades permit me to state that I had to resist tremendous pressures in the handling of this case."

After saying this, he doffed his prosecutor's hat bearing the radiant national emblem, placed it on the prosecutor's bench and spoke:

"After I finish the prosecution here today, very possibly I will no longer be able to continue to wear this dignified hat. Should I ever be persecuted, or even persecuted to death, please bury half of my ashes with those who have been persecuted to death, because I will have failed to right wrongs and remove evils for the people; have the people sprinkle the other half at random in every corner of Xicheng." Prolonged applause broke out inside and outside the court, and some people shouted loudly, "The people fully support the prosecutor who upholds justice." Ever more people were moved to tears.

Then Zeng Xianyuan began the prosecution. The whole hall was hushed in such respectful attention you could hear a pin drop. When the events were related in which Zhong Wenfu was stabbed then hit and kicked by Ji Xiaoyong until he died, many people in the audience both inside and outside the court uttered angry remarks and sobbed with sadness.

Zeng Xianyuan adroitly applied provisions of prevailing national laws to the origins of the "September 13th Incident," the facts of the case, the circumstances, the nature, and the danger to society as well as the position, the role, and the ability to bear legal responsibility of the defendants, particularly Ji Xiaoyong, making six points. He said as follows:

Article 160 of the "People's Republic of China Criminal Code" provides that gang beatings, provoking quarrels to cause trouble, insulting women, or other acts of hooliganism that damage public order are to be punished by up to 7 years of imprisonment, detention, or restriction depending on their severity. Leaders of hooligan gangs are to be punished with 7 years or more of imprisonment. We believe Ji Xiaoyong and the other defendants to be devoid of the least sense of morality and the law. They have victimized the public through hooliganism in a quest for mental stimulation and to fill a mental void. They regard law-abiding behavior as "incompetence" and violation of the law as being a "good man." They go out of their way to pick fights in public, and they beat people who have done nothing. This is truly "disgusting behavior," and is entirely within the purview of legal provisions regarding hooliganism... In the course of his criminal activities, the accused, Ji Xiaoyong, deliberately developed his subjective criminality as his criminal acts changed, thereby rapidly generating new criminal motivation and committing more serious crimes. This culminated in the death of Zhong Wenfu, who had not committed the slightest wrong, but who had begged for mercy for having offended him. He committed the crime of premeditatedly injuring a person till he died. His crimes should be counted and punished accordingly! (Applause all around.)

In view of his having consistently seriously threatened social order, repeatedly having provoked quarrels and created trouble, beat people, and killed people, the deceased, Zhong Wenfu, being a completely innocent victim, the prosecuting organ believes that to try Ji Xiaoyong under the provisions of Section 2 of Article 134 of the "Criminal Code" for "premeditated injury to another person leading to death, punishable by 7 years or more of imprisonment or life imprisonment" would not be consistent with the crime. I am saying that life imprisonment is too light a sentence for Ji Xiaoyong. (Applause all around.) Therefore, the Xichang Municipal People's Procuratorate and the Autonomous Prefecture People's Procuratorate unanimously believe that clauses 1 and 2 of Article 1 of "Decisions On the Serious Punishment of Criminal Elements Who Seriously Damage Social Order," which was passed by the NPC Standing Committee on 2 September 1983, must be applied to this seriously criminal element, Ji Xiaoyong. These clauses apply to those who carry weapons for the purpose of committing hooligan crimes, and who purposely hurt others causing serious injury or death. Such crimes may be punished with the maximum penalties provided by the "Criminal Code," including the death sentence. (Enthusiastic applause all around.) This is the clear attitude of the procuratorial

organs of both the prefecture and the city. (Sustained enthusiastic applause all around)...

However, did anyone in position of authority come forward to move along this simple and clear, well-documented, and particularly grievous case, which dragged on for 10 months before coming to trial? No! ...A folk saying says that "To get justice, you have to turn things upside down." If it were Ji Xiaoyong who had been injured, I believe the matter would have been concluded within 2 months. So why shouldn't complaints be heard everywhere? (Applause all around.)

The people's delegates, the people's delegates, ... The delegates of the people of Xichang City have asked questions of the political authorities, and the people's delegates of Liangshan Autonomous Prefecture have asked questions of our procuratorate and the intermediate court. We believe these questions to be right and proper... Had it not been for the supervision of the people's delegates, we believe this case would not have come to trial today. (Applause all around.)

Now people throughout Liangshan are waiting and watching to see the final outcome. There is standing room only in the auditorium today, and both the corridors and the courtyards are packed with people who are looking steadfastly at these people here on stage, who do not want to put on airs, but want to be a good example. I believe that the court will not disappoint the public's expectations, and that it will punish mercilessly the principle offenders in this case! (Enthusiastic applause resounds all around and continues for a long time.) ...Unless they are severely punished, we cannot face the spirit of the deceased, Zhong Wenfu. Unless they are seriously punished, "the equality of all people before the law" is a hollow phrase! Unless they are severely punished, people will become more convinced that "power is greater than the law!" Unless they are punished severely, there can be no hope for a change for the better in the party's workstyle, and there can be no hope for an improvement in the social order of Xichang! (Sustained applause all around.) Therefore, we recommend that the collegiate bench should severely punish the principal criminal in the "September 13 Incident," Ji Xiaoyong, in accordance with Article 160, Article 23, and Section 2 of Article 134 of the "Criminal Code," and Sections 1 and 2 of Article 1 of the "Decisions" of the NPC Standing Committee! (Sustained applause breaks out all around once again.)

Your Honor, judicial officers, and citizen members of the audience: As we approach the end of the prosecution statement, I must tell all of you something from the bottom of my heart. This is that in the process of accepting and dealing with this case, many old friends, workers, and citizens have been concerned about me and worried about me. My wife and children have also been concerned for me, fearing that I might meet with a mishap. This is completely understandable, and this is no deliberate exaggeration for the purpose of creating a sensation. When Bao Zheng [0545 2163] was hearing the Chen Shimei

[7115 0013 5019] case some years ago, Tai Xianglian [3141 7449 5571] was also secretly offered 300 taels of finest quality silver ingots for a favorable outcome. Tai Xianglian angrily damned Bao Zheng saying: "I do not want 300 taels of silver ingots and appear to be involved in officials protecting each other!" Bao Zheng, who was so furiously rebuffed, then decided to get Chen Shimei. "Implication in one official protecting another" has been going on in our land for a long time; it is deeply ingrained. But mankind has developed and society has advanced. Today we have the leadership of the Communist Party; the country has laws and the support and supervision of the people. Our legal officials and prosecutors should be much higher than the Bao Zheng's of a feudal dynasty... (Enthusiastic applause all around.)

I know that there are an extremely small number of youths in society who still praise Ji Xiaoyong as "a fine man" in Xichang, and who have uttered some threats. But I am not afraid. I am almost 51 years old. Everyone has to die sometime, leaving a good name behind! (Long applause all around, many people shedding tears.)

I have said something in court today that is not very pleasing. I hope that the leaders concerned will act with enlightenment, genuinely supporting prosecuting organs in carrying out independently the authority to prosecute that the state and the people have conferred. (Enthusiastic applause.)

The "Red Light Barbershop" stood opposite the auditorium. Usually this barbershop was busiest when a meeting was held in the auditorium, but today was an exception. Not only was no one getting a haircut, but even the barbers were in the auditorium listening all afternoon.

The court secretaries recorded a total of 39 interruptions for applause during the two statements made by prosecutor Zeng Xianyuan and the head of the prosecution section, Yang Zhonghai.

The prosecution's stern speech which was made out of a sense of justice, and the unbounded anger of the public toward Ji Xiaoyong, caused Ji Xiaoyong's counsel to stammer and his hands to tremble as he read the previously prepared defense statement that he held. The internationally renowned expert on mental disorders from West China Medical University sitting in the witness section, who had been specially brought in, was holding Ji Xiaoyong's "examination conclusions." He had intended to attest publicly that Ji Xiaoyong "genuinely had a slight mental disorder," but his face became red, his ears turned crimson, and he said nothing.

The trial continued all day long. Following the collegiate bench's assessment, trial judge Lei Shengzhi announced the sentencing of Luo Minglan to 5 years imprisonment and of Xiong Xiaodong to 4 years imprisonment. Then, he proclaimed in a loud voice: "Ji Xiaoyong is sentenced to 4 years for the crime of hooliganism, is sentenced to

death for the crime of willfully inflicting body harm, and is stripped of his political rights for life." The whole area burst into sustained thunderous applause, and a cry of joy went up: "This is a victory for the people!"

Aftermath of the Moving Prosecution...

The court's judgment afforded general satisfaction. Not only did Zeng Xianyuan receive a constant stream of letters, but he also received praise from leaders at all levels. However, slanderous talk also circulated. Some people said that Zeng Xianyuan had "tried to please the public with claptrap, and had incited the public." Some said he was a "genuinely illiterate of the law," and "should be kicked out of the procuratorate."

On the night of 22 July, Ji Xiaoyong's younger brothers, "Old Five Ji" and Ji Xiaogang, organized a gang to go to the procuratorate to "settle accounts" with Zeng Xianyuan, but were dissuaded by others.

On the night of 27 July, judicial officer Jin Zuhao threatened Zeng Xianyuan to his face saying, "The speech you gave slandered a lot of people. You had better be a little careful!" He and Luo Shixun wrote a letter to the provincial and central governments saying that Zeng Xianyuan "who committed public slander...should be held legally responsible."

As a result, people in all walks of life in Liangshan Prefecture and in Xichang City, both those who knew him and those who did not, urged Zeng Xianyuan to leave Xichang City and move out of Liangshan Prefecture along with his wife and family, the farther the better.

Right after New Year's this year, the people of Liangshan finally received the news that they feared most.

On 15 October of the previous year, the Sichuan Province Supreme Court issued "88 Chuan Criminal Code Yi Zi No 398 written verdict" providing that a mental evaluation made by the Sichuan Provincial Forensic Medicine Society showed Ji Xiaoyong to be suffering from a slight mental disorder that clearly limited his ability to be held responsible. He had also voluntarily surrendered....it has been decided that Ji Xiaoyong's death sentence is to be suspended for 2 years, and that he is to be stripped of all political rights. He is to be reformed through labor where he is to be observed to see how he behaves.

It was not until 3 months after it had been rendered that this verdict was sent to Liangshan Autonomous Prefecture. According to the provisions of Article 121 of the "Criminal Prosecution Code," any announcement of a court judgment, including a change of sentence, is to be announced publicly. However, the intermediate court of Liangshan Prefecture did not do this.

How could the intermediate court dare to announce publicly that "Old Four Ji" was not to be shot to death

after all? Worse yet, Zeng Xianyuan, Yang Zhonghai, and the Liangshan Prefecture and Xichang procurate courts had known all along that the conclusions of the Chengdu "reexamination" of Ji Xiaoyong were not only invalid, but that an investigation should be conducted to determine legal responsibility for falsifying evidence.

During late December, the intermediate court finally removed Ji Xiaoyong quietly from the Xihe Detention House in Xichang to the Bula Prison.

Indignant people cannot help but ask repeatedly, how could the verdict on this case that moved people and made them rejoice for a time be twisted so? How many dirty deals have been made under cover of this thick layer of personal relationships? Can those who are called "public servants" dare to be "open" with the people?

Prosecutor Called 'Living Duke Bao'

40050403 Beijing XIN GUANCHA [NEW OBSERVER]
inChineseNo 5, 10 Mar 89 p 1

[Article by Zhong Bing 0112 0365: "Why No Equality Before The Law?"]

[Text] At the trial for murder of Ji Xiaoyong [1323 1420 0516], the son of deputy head of the prefecture, Zeng Xianyuan [2582 20091 0337], public prosecutor of the Liangshan Autonomous Prefecture Procuratorate, dared to offend his superiors in the prefecture and their "powerful" personal relationship network. Doffing his prosecutor's hat, and placing it on the prosecutor's bench, he said, "After I finish the prosecution here today, very possibly I will no longer be able to continue to wear this dignified hat. Should I ever be persecuted, or even persecuted to death, please bury half of my ashes with those who have been persecuted to death, because I will have failed to right wrongs and remove evils for the people..." Prolonged applause broke out inside and outside the court, and the people were moved to tears.

This was an actual event that the noted reporter Dai Huang [2071 3552] recorded in a reportorial article titled, "Covered by a Thickly Layered Network." (See the current issue of this magazine.) The full text of the "report" reveals the entire story of this horrifying murder case and public trial such as is rarely seen throughout the country. Reading it jarred my thinking.

I was moved by this "living Duke Bao's" lack of fear of power and influence, and his impartial enforcement of the law. I have a profound respect for him. Nevertheless, I could not help thinking that Duke Bao was a Song Dynasty official whose style and methods of righting wrongs and getting rid of evil for the people were shaped in the environment of a feudal society. Why should a public prosecutor in the eighth decade of the twentieth century not rely on the power of the law to get rid of evil for the people instead of model himself on Duke Bao, who lived 900 years ago, and why should he make up his mind to lose his official position or brave death in order

to make a declaration in support of a righteous cause? And why did the broad masses of the people earnestly hope for a "living Duke Bao," and sing the praises of the "living Duke Bao." Why, in the performance of his minimal duties, did a public prosecutor reveal that he lacked "freedom to be free from fear"? People in quite a few prosecuting units of the kind covered in the "report" are not free from granting all sorts of favors when confronted with such a murderer's "court backers," mainly out of insecurity at having no support. This shows that our administration lacks true independence, and that the fate of those who administer justice is still controlled by others. The above two aspects suggest that feudalism is still causing trouble in our law enforcement system and in our social environment.

The laws and system for the administration of justice in feudal society openly protected privilege. There was no equality before the law. The law provided that should relatives of the emperor and nobles commit a crime, there could be "discussion with relatives," and "discussion with nobles" (special deliberations), and should a government official commit a crime, he would be

"treated as an official" (his official position countering conviction), thereby obtaining a reduced sentence or none at all. Today, we explicitly provide that everyone is equal before the law. However, when "officials" (or their relatives) commit a crime, they are still able to rely on their power and influence to obtain a avoid punishment, get a reduced sentence, or even go scot free through the use of written orders, warnings, threats, or blandishments, with no one daring to ask questions. Clearly, the relics of feudalism in the system for administering justice have created inequalities befoe the law, and have made a mockery of the principle of equality befo4re the law. This is a serious kind of corruption.

The profound inspiration that Dai Huan's "report" provides is that only a resolute purge of the remnants of feudalism in the justice system and the political system will ensure true independence in the administration of law and change the present reality of influence being more powerful than the law and the rule of man being more powerful than the rule of law, thus truly realizing equality before the law.

NATIONAL AFFAIRS, POLICY

Academy of Social Sciences Official on Problems in Reform

HK2405060089 Guangzhou YANGCHENG WANBAO
in Chinese 17 May 89 p 2

[Article by Lan Guiliang 5663 2710 5328: "Liu Guoguang, Vice President of the Academy of Social Sciences of China, on Several Problems in China's Economic Reform and Development at Present"]

[Text] Recently quite a lot of people have raised many questions about China's current economic reform and development. To seek solutions to these questions this reporter had a special interview with Comrade Liu Guoguang, well-known economist and vice president of the Academy of Social Sciences of China, in Beijing on the morning of 20 April. He expressed his opinions on China's current economic reform and development as follows:

Retrenchment Has Brought About Two Difficulties, and We Will Have to Pay a Price for It

Liu Guoguang said that while carrying out the policy of improving the economic environment and rectifying the economic order, we presently continue retrenching the economy, cutting back on the total demand, and readjusting the industrial structure. We came up against two difficulties in this process: retrenching the economy caused more serious funds shortages in production and circulation, a "decrease" in production, and an obstruction in circulation; if we had refused to take contraction measures, supplying more money in an all-round way, more serious inflation would have resulted and it would have been more difficult to control. We came across these two difficulties in the past. The fourth quarter of 1984 witnessed a number of "overheatings," and we adopted retrenchment measures in 1985, but early in 1986 the departments and enterprises complained, as did the theoretical circles. We were then forced to relax restrictions, but price increases ensued. Late in 1987, the central authorities adopted double-retrenchment-and-double-reduction measures and there were complaints again. In 1988 we relaxed restrictions again. In the current retrenchment, we came across the blind flow of labor forces and failed to control the money flow with the result that the cash was found "flowing outside the bank." The economy should have had a soft landing, but it took off again before it landed, and the inflation has become more and more serious. There are similar complaints at present, and whether we can cope with them properly remains to be seen. If we lack strong determination and give in in the face of complaints from all quarters, the economic structure will be continually distorted, the industries and enterprises which have poor economic returns will not be readjusted in time, and there will be both economic stagnation and price increases in China. In making policy decisions we should select the more favorable of two advantages and accept

the lesser of two evils. To overcome current difficulties we must, while deepening our understanding, making up our minds, and removing all interference, continue to reduce the total amount, readjust the structure as soon as possible, and increase effective supply.

He said that the improvement and rectification is a painful process in which we will be injured in the sinews or bones, and the whole people of the country should be mentally prepared to pay a price, make a contribution, lead a hard life, and have a rough time. There is presently a mentality which is detrimental to the improvement and rectification: some people hope the process of the improvement and rectification, that is, the process of crossing the low valley, is one in which they will remain intact and all feel happy. This is impossible. It is necessary to curb the total amount and to readjust the structure. We are bound to be injured in the sinews or bones in this process. As some enterprises which consume excessive energy and raw and semifinished materials and have poor economic returns will be closed down, halt productions, merge with other enterprises, or be switched to the manufacture of other products, some people will have to seek jobs; tightening up the money supply will cause many departments and enterprises to face keener competition and also affect personal incomes; and so on. Therefore the people across the country should be mentally prepared to pay a price, lead a hard life, or have a rough time, which is brought about by a lower living standard. They should be resolute and work together to tide over the crisis. Otherwise, what should be reduced will not be reduced, what should be improved and rectified will not be and the improvement and rectification will prove a mere formality.

Continuing To Deepen the Reform Is an Effective Way to Readjust and Retrench the Economy

Liu Guoguang believed that retrenchment constitutes the core of the improvement and rectification and it must go hand in hand with rational readjustment. Further deepening the reform is an effective way of effecting readjustment and retrenchment. Therefore we must combine the improvement, rectification, and readjustment with the deepening of the reform. Only through deepening the supportive reform can the goals of the improvement, rectification, and readjustment be achieved.

He said that the current retrenchment is like a spring. If you press it by means of administrative measures, it will return to its original shape as soon as you relax the pressure. In fact it is very difficult to press it down. It appears that the problems will not be basically solved unless we continue deepening the reform. At present it is necessary to solve the following problems.

1. It does not work to restore the old system or promote wholesale privatization. A mixed ownership with public ownership remaining predominant will conform better to China's actual conditions. The current economic

reform is really at a critical point. We cannot slip back to the old system, which offers no way out, nor can we introduce capitalist privatization. Given China's present political and economic situation, privatization will only change all enterprises into bureaucratic capitalist enterprises. Judging from the development patterns of the current world economy, a mixed ownership will conform to China's market-oriented reform to a greater degree, and will help establish the public ownership as the mainstay. Therefore China should introduce a mixed economy for a long time to come.

2. It is necessary to make a thorough study of, and provide a solution to, the problems resulting up from introducing the financial contract system, the enterprise contract system, and the system under which the total wages are linked to the profits and taxes turned over to the state. China's old system was one which encouraged the starvation of investment and the swelling of investment. China is at present in the transitional period in which both the old and new systems coexist and the former is being replaced by the latter. When the problems resulting from integrating government administration with enterprise and from operating the economy through administrative means remained unsettled, we delegated the authority for making financial decisions to localities, made them responsible for their finance, and divided revenues and expenditures between the central and local governments. With the enlarged power over financial affairs, the localities, in the interest of their areas, either pressed the banks for money so as to increase investment and arbitrarily expand processing enterprises, township enterprises in particular, or refused to reduce those enterprises which could increase local financial incomes and were directly related to local interests but had poor economic returns. This accelerated the overheated economy and inflation. Therefore, it is necessary to deepen the reform amid the improvement, rectification, and readjustment and make a further study of, and provide a solution to: the problems concerning arbitrary developments and duplicate construction by local governments under the system of assuming exclusive responsibility for the balance of one's own budget; the measures for the financial contract system to go over to a system of tax distribution. It is also necessary to correctly handle and solve the problems regarding the distribution of financial interests between central and local governments.

Let us talk about the enterprise contract system. At present the contracted management responsibility system is introduced in both state-run and collective enterprises. This helps mobilize enthusiasm on the part of localities and enterprises, and improve economic returns. But the primary problems lie in the specific method of work. Currently, most enterprises contract for tasks and repay loans before paying taxes so that the enterprises get more profits than the state. This leads to the inflated investment by the enterprise, the overexpansion of consumption funds in particular, short-term behavior of the enterprise, and other undesirable results.

The economic returns of the enterprises remain poor, and the staff and workers inactive. To solve the problems it is necessary to transform the mechanism and establish the self-restraint mechanism for the enterprise by deepening the reform.

Again let us deal with the practice by which the enterprise's gross payroll is linked to the profits and taxes turned over to the state. The gross payroll is in fact linked to prices, causing the enterprise to raise prices of its products and exact its profits from consumers, so it is consumers who suffer. It is now necessary to further study and solve the problem of how the enterprise's total wages should be linked to actual economic returns and productivity.

Liu Guoguang believed that it is necessary to change the inflation mechanism to solve the above problems. This calls for the deepening of the bank's structural reform. Controlled by the governments at all levels, the banks cannot make their own decisions about personnel arrangements and operations. The local governments compel the banks, a means for macroeconomic control, to make loans and investments, depriving the latter of their independence. The investment inflation gives rise to the credit inflation, forcing the central bank to supply more money. In addition, as a number of enterprises and individuals refuse to deposit money in the banks, cash "flows outside the banking system." As a consequence, the banks are unable to recall part of the currency issued as usual and there is an increase in money in circulation. To solve the problems of the investment inflation and of the "external circulation" of currency, it is necessary to introduce reforms in two ways rather than only curb the money supply. On the one hand, it is necessary to reform the financial system so that the bank will have full authority for making its own decisions; on the other, it is necessary to make adequate use of interest rates as a lever to work out and carry out an interest policy which will ensure the interest rate is higher than the inflation rate. We will be able to let the "spring" effect self-control by introducing the above reforms.

The Leadership as Well as the Masses Should Advocate Hard Struggle

Liu Guoguang said that a main task before us in improving the economic environment, rectifying the economic order, and comprehensively deepening the reform in the current stage is that the whole people, including the leadership and the masses, should advocate hard struggle, and be prepared to lead a hard life. It should be realized that ours is still a poor country where there is an excessive demand and materials are in short supply instead of otherwise. Under the present double-track pricing system, which has more disadvantages than advantages, the price differences in the retail prices of commodities in society, in the interest rates, and in the foreign exchange rates total 200 billion yuan, constituting a hotbed and a paradise for the "official and private profiteers." Some people have achieved great ill-gotten

wealth by taking advantage of the defects in our systems, and an unfair distribution of incomes has become a serious social problem. Under the circumstances, the whole people including the leadership and the grass roots should wage an arduous struggle for the country and the nation to overcome the difficulties instead of competing with one another in squandering money and spending money on high-grade products too early. Japan, South Korea, and Taiwan went through economic retrenchment and hard struggle before they enjoyed today's prosperity. At present some people from the higher levels to the grass roots are free with public or their money, irrespective of the state's or their own financial conditions, wasting a lot of money and materials and poisoning the general mood of society. If these problems remain unsolved, how can our economy take off and how can our country prosper?

Study Group Views Economic Policies, Options
HK3105014389 Beijing JINGJI RIBAO in Chinese
5 May 89 p 3

[Article by the Study Group of the Economic Research Center Under the State Planning Commission: "Certain Policy Options During the Period of Improvement and Rectification"]

[Text] Initial results have been achieved in improvement and rectification. However, some original contradictions in economic life have still not yet been solved. At the same time, some new contradictions and difficulties have emerged. Our tasks are still very arduous. Some of the policy options discussed in this article are existing policies, and some need to be further studied.

Control Consumption

To control demand is the most important aspect of the effort to curb inflation. In this respect, the swelling of consumption demand is a major question to deal with. The so-called swelling of consumption demand refers to the "swelling of income of the residents," or the swelling of the income controlled by the residents. Our experiences show that the swelling of consumption demand is playing an increasing role in promoting the swelling of general demand. If we cannot curb the swelling of consumption demand, we will be unable to succeed in improvement and rectification. Moreover, the swelling of consumption demand may become the root of troubles in our future development and reform.

There are mainly four channels for the swelling of personal incomes: 1) the increase in the open total wage which is faster than is planned; 2) the increase in the standard of semiopen welfare for staff and workers; 3) the covert bonuses and bonuses in kind; and 4) the income obtained through illegal means. The problem of obtaining personal gains through illegal means should be solved through clarifying laws and discipline and striking blows at criminal activities in the course of rectifying the economic order. The second and third channels are more

difficult to control because they are not completely transparent (a certain proportion of the welfare comes from nonwage costs and profits) or are not entirely transparent (the bonuses in kind or cash allowances that are not included in personal wages and bonuses). In order to carry out effective control or regulation, the first thing we must do is to make open all those covert or semitransparent forms of wages. The increase in the semiopen welfare and the existence of the covert bonuses and bonuses in kind are inevitable. While making them open, we may use both methods of "guiding" and "blocking" and may recognize some of them and negate some others.

At present, many enterprises are linking total wage with economic returns. Many problems have emerged in implementing this method. It must be improved. Our suggestions for a new wage management system are as follows: 1. All expenditures in the form of wages must be open and cash wages (including welfare and insurance). If an enterprise wants to continue to take on welfare work, this work should be included in the wage list and should be regarded as a part of production cost. It must not use the funds not included in total wage to give out bonuses, allowances, and bonuses in kind. 2. The state divides the average wage level into several grades for various trades, and the enterprises should submit reports to the banks they have opened accounts with and the financial and tax departments on the total number of their staff and workers and their total wages. 3. The financial and tax departments will work out a plan on the levy of salary tax according to the general situation and select an intermediate wage grade as a point to start the levy. 4. Salary tax will be handed in by the enterprises, which are responsible for retaining a part of the salaries for tax payment. The enterprises will be held responsible for evasion of taxes. 5. The banks will exercise supervision over the changes in the enterprises' total wage and total number of staff and workers. In principle, the same method can also be used to readjust and reform the wage system of administrative units and institutions.

To readjust personal income regulatory tax and personal income tax. All individuals whose annual income reaches 3,000 yuan (or 3,600 yuan) or above should pay personal income tax, with a progressive rate starting from 5 percent. The annual income includes the wage actually obtained, interest, and the income from various other channels. All citizens are duty-bound to report their annual personal income to the government's tax departments. Those who fail to do so should bear economic or even legal responsibilities. In recent years, although the rate of increase in the people's savings deposit is rather high (30 to 40 percent), the deposit rate (the trend of deposit) is not high. It is even dropping now. The proportion of direct investment by individuals in the total revenue is even smaller. There are great potentialities in increasing the people's savings deposits and investment. Fully bringing out such potentialities is of great importance to readjusting the irrational consumption structure and reducing the pressure on the

consumer goods market. To this end, the following measures can be adopted: 1. To further readjust the deposit rate and improve financial service so that the people's deposit may be increased. 2. To issue bonds and shares in a planned way and encourage people to buy them. 3. To develop the insurance business, deepen reform of the social insurance system, and extend the scope of this business for individuals. 4. To establish on a trial basis mutually beneficial investment and trust investment organs and businesses. 5. To gradually commercialize dwelling houses and encourage residents to purchase such houses. 6. To encourage private enterprises and individual traders to make productive and service investments.

Check Up on Investment

The trend of swelling investment has been gradually controlled since 1986. However, the current investment scope is still too large judging from the materials available for investment. Moreover, the investment structure is irrational. Thus, the general principle for investment should be: To reduce total investment and readjust the investment structure and to combine them both with stress on the latter. In light of China's current economic situation and long-term development, in the course of readjusting investment structure, it is necessary to reduce the scope of the oversupplied products processing industry and the scope of nonproductive and repeated construction projects. It is necessary to ensure energy, communications, and raw materials industries, newly emerged industries, the industries that are originally vacant in our country, the industries for processing agricultural and sideline products, and other industries relating to foreign trade. Generally speaking, the scope of the key construction projects, most of which are enterprises in underdeveloped industries, should not be reduced. The investment in science, technology, and education should be increased. The construction of dwelling houses should generally be slowed down, but those projects now under construction should not be cut down or reduced.

When readjusting the investment structure, firm and resolute legal measures and administrative orders can be adopted in certain fields. In light industry, the investment in those projects which have an excessive productive ability but seriously insufficient raw materials should be frozen. In heavy and chemical industries, some standards can be worked out to determine the scope of various trades. The construction of those projects which are lower than the standards must be stopped. In mining industry, it is necessary to adopt three separate principles in light of the specific situations. The three principles are: Prohibiting mass mining, allowing limited mass mining, and encouraging mass mining.

Under the current situation characterized by pluralistic interests and "flexible policy," it is very difficult to check up on various investments. Therefore, in consideration

of the needs of improving the economic environment and the long-term development, it is necessary to implement unified and effective industrial and investment policies and effectively strengthen the control by the central macroeconomic regulation and control departments over the total social investment and its structure. After checking up on the investment projects, all projects reserved should apply for new investment licenses.

It is necessary to readjust and reform the investment planning and management systems so that planning and management can be carried out in an appropriate way. While enhancing the ability of the central authorities to regulate and control investment, it is necessary to continue to run the main projects for investment in the way enterprises are run. Some large and medium projects that are listed in the state plan can be managed by the state investment companies, and some can invite tenders from enterprises and enterprise groups throughout the country. After that, the projects will belong to the enterprises or enterprise groups, and the state only offers subsidies.

Readjust Production

There are great potentialities for increasing effective supply. However, only after making a readjustment in production can these potentialities be exploited. First, it is necessary to mobilize people in all trades and professions to launch a movement for strengthening labor discipline, economizing on energy and raw materials, and reducing consumption. Second, it is necessary to give first consideration to improving energy supply, industrial water supply, transportation, and fund circulation in order to strengthen the backward basic departments. Third, in both processing and manufacturing industries, it is necessary to adopt various measures to reduce the production of unmarketable and overstocked goods and increase the production of the commodities in short supply. Fourth, it is necessary to increase the production of the means of agricultural production, especially the production of chemical fertilizer, pesticide, and plastic sheets. Apart from increasing the supply of raw materials and loans using the circulating funds of banks, the financial departments at all levels must also offer certain subsidies. Fifth, it is necessary to further promote the development of the service trade.

Production readjustment must be combined with the circulation of major elements. First, it is necessary to set a deadline for ceasing the production of the eliminated products and unlicensed small mines in accordance with the State Council's stipulations on the main industrial policies for the current stage. The production of low-quality mechanical and electrical products, high power consumption products, and the products which may cause serious waste of raw materials and environmental pollution should be strictly restricted. Second, it is necessary to break the dividing line between ownership and administrative and financial measures and the trammels of property right standard and go all out to promote

the integration, merger, or lease among enterprises. The problems under dispute should be recorded and kept in file so that they may be resolved in the future when proper methods are found. By doing so, the effective supply will not be reduced in a short period of time. Moreover, as waste is reduced, the scale benefits may increase.

In order to fundamentally promote the readjustment in production, it is also necessary to attach great importance to the development of the mechanism of market competition and reform of the enterprise system. Although this is a course of slow development, it does not mean that no quick effect can be produced in the near future. First, it is necessary to maintain an environment of fair competition for all trades. To this end, it is necessary to readjust the special and favorable treatments for enterprises rather than trades in respect of price, tax, finance, materials supply, foreign trade, and foreign exchange so that their ranges can be reduced. In the enterprises under contract, it is necessary to separate tax from profits through readjusting the income tax. It is necessary to generally unify the form of contract. Those departments which have been implementing the method of contracting output quotas better than others can further perfect this method. But it can be gradually abolished in other departments and replaced with competition within the same trade. Second, it is necessary to select a number of enterprises to carry out an experiment on the shareholding system. Third, it is necessary to actively promote the optimizing of labor organization. At the same time, it is necessary to speed up reform of the social insurance and welfare systems and promote the circulation of labor forces in state enterprises.

Consolidate Circulation

Consolidating circulation involves the fields of commerce, materials supply, and foreign trade as well as price, industrial and commercial administrative, tax, customs, and commodity inspection departments. The key problem in consolidating circulation is to establish order. A task at the present is to draw a clear distinction between legal and illegal in accordance with the existing systems. The problems in the first category include those conducts that are strictly forbidden under various types of commodity economy. The problems in the second category include the conducts that should be controlled though not necessarily forbidden. The problems in the third category include the conducts such as making use of the special and dual-character regulations of the period of structural change to engage in speculation. The most thorny matter is to prevent "short circuit" or overlapping of the double-track system. It is necessary to clearly stipulate that all forms of reselling of the state allocated commodities, low-priced raw materials, state-allotted foreign exchange, and low-rate loans at profit and the unauthorized increase of the prices of state-controlled commodities under all pretexts should be regarded as illegal. Of course, we must also be aware of various difficulties in implementation. Our target can

only be getting the trend of disorder under control and putting an end to the coexistence of the two tracks as soon as possible through reform.

It is necessary to make further efforts to check up on all kinds of companies. It is necessary to reexamine their range of business, ability, and registered capital and check up on their main businesses and credit. The general principle is to solve the problems such as making no distinction between government and enterprise, between government officials and businessmen, and between the function of carrying out plans and that of carrying out commercial activities. Except for a few companies approved by the State Council, no company should perform the function of administrative management. They must be separated from the administrative organs. Generally speaking, except for certain companies specially permitted by the state in light of the needs of monopolized operation of the domestic market or the needs of promoting foreign economic relations, no company should have an official background. There must be certain restrictions, such as the time for retirement and professional qualifications, on those personnel who have retired from or left party and government organs and who want to hold a post in the company.

It is necessary to carry out an overall consolidation of the allocation and price control systems. All production units, transport departments, and supply departments must strictly carry out the plans and the state's ordering contracts concerning the consumer goods and capital goods under the unified allocation of the state or central departments. Their responsibilities must be made definite so that supervision and examination can be effectively carried out. Naturally, the monopolizing departments must gradually abolish the "double-track" price system so that they may not take advantage of their position of monopoly to do whatever they like to do. The gradual abolition of the double-track price system in electric power supply and railway transport can be taken into first consideration. Of course, the unified price should be readjusted to a comparatively reasonable level. After that, the double-track price system can be abolished in oil and other departments in the same way. The form of prices of the commodities which may affect the markets throughout the country should be unified. Of them, some may adopt the form of free prices or floating prices if conditions allow and, if conditions are not ripe, the basic commodities should adopt the form of planned prices. It is necessary to solve the problem of disunity of price forms of many commodities in various areas. Due to this disunity, the prices of some commodities may go up in certain areas while remaining the same in some others. The solution of this problem is conducive not only to promoting normal circulation but also to saving transport capacity and other expenses.

It is necessary to adopt the method of "open marketing" for all extra-state-budget capital goods. It is necessary to clearly stipulate that in the marketing of capital goods, priority should be given to satisfying the needs of the

state's major enterprises and key construction projects. The prices must be reasonable. In other words, they should not be randomly increased when the capital goods are in short supply and no one should sell the capital goods at a low price with some additional conditions. Bartering other goods for capital goods should not be allowed. If any unit needs the assistance of other units in respect of capital goods, both sides should also settle accounts and pay tax according to the market prices or the average prices. The storage of capital goods should be reasonable. When the capital goods are in short supply, they should not be overstocked, and when supply is improved, they should not be sold at the original high prices and their storage should not be increased. The ceiling price of capital goods should be set by the state in accordance with the quotations of the major large enterprises of the same trade.

It is necessary to readjust the policy and method of contracting foreign trade by localities. Those commodities that are really necessary to be handled in a unified way (because of the excessive disputes in domestic market or changes in prices) can be handled in a unified way by central corporations. The disunity in the retaining of foreign exchange should be changed so that competition can be carried out on an equal basis. It is necessary to further relax the commodities that are fully competitive. The enterprises should carry out readjustment of their own license and quota distribution systems so as to strengthen unified management.

Credit Balance and Financial Control

Both planning and macroeconomic regulation and control should be strengthened for total credit and its structure. It is not only necessary to work out a planned target for the general scale of new credit (including bonds and shares), a target for the total loans using circulating funds, and a target for the total loans for investment in fixed assets and, on this basis, work out a target for money supply and net cash input, but it is also necessary to study and work out a target for the structure of fixed assets (according to the different proportions of different trades), a target for the key projects on the list of investment plan (according to the quantity of loans), and a target for the structure of loans using circulating funds. The central bank bears full responsibility in fulfilling the credit plan.

The total planned credit and its structure must be identical with the state's macroeconomic policy and the policy on readjusting industrial structure. Thus, the implementation of the credit plan will be coordinated with the macroeconomic management of banks, planning committees, and specialized departments. The bank is responsible for submitting reports to higher level authorities on implementation. However, no organization has the right to force the bank to give unplanned loans. If in order to implement the industrial policy the planning committees and specialized departments hold it necessary to provide loans for certain (extra-state-budget) projects and enterprises, they can first discuss

the matter with the government's investment organizations or construction funds, which provide discounts, and then discuss it with the bank to arrange the loans.

Apart from explaining and transmitting the planned targets to various professional banks, the central bank should also give full play to its role of indirect regulation and control while implementing the credit plan and money supply plan. First, the reserve funds interest payment system should be abolished so that the professional banks can feel the restriction placed on the scale of their credit by the reserve funds. Second, in light of the need for reducing the scale of the excessively swollen loans at present, the central bank can also establish a special reserve while extending the scale of general reserves. Third, with the increase in the government bonds on the market, the central bank can try to make market trading open to the public and regulate money supply. Fourth, when providing loans for foreign trade and export and for the purchase of agricultural products, the form of notes on discount can be adopted on a trial basis. Expenditure can include government financial bills, and the central bank can adopt the form of rediscount to partially or wholly replace repeat loans. Fifth, in a considerably long period of time, the central bank still needs to directly control the basic interest rates in order to regulate deposits, loans, and capital market. However, it is necessary to adopt the float-rate system after the substantial positive interest rate is restored.

It is necessary to put an end to bank overdraft in financial affairs. Fundamentally speaking, the improvement of the financial situation depends on the effort to increase revenue and reduce expenditure. In light of the current structure of national income, it is necessary to increase the tax levy on the circulation field, the rural areas (such as education tax), and the high-income people. To control the scale of investment in the processing and manufacturing industries, it is necessary to levy investment tax, and to control consumption. It is necessary to levy consumption tax on the purchase of high-grade and durable commodities. In expenditure, the main task is to reduce the consumption of social groups. Expenditure does not only affect the general demand but also affects the structure of the national economy. To eliminate the many negative factors in the existing financial system, it is necessary to readjust the policy on contracting financial affairs at different levels. The implementation of the tax distribution system will certainly bring about great changes in the tax system. However, it is also suitable to adopt this system before the tax structure is perfected. First, a transitional method is to define the main categories of taxes as the taxes for both central and local authorities. Second, the tax departments can become vertical and independent tax departments at the national level so that the unified tax system and local tax revenue can be guaranteed and so that they can be well accepted by various quarters. Third, it is necessary to set a standard for local expenditure and take into consideration the interests of various localities after adopting the tax distribution system.

Withdraw Currency From Circulation and Curb Inflation

It is obvious that the over-issuance of paper money over the past few years has cast a shadow on the stability of the general commodity price. The consumer market will continue to face heavy pressures. Under such a situation, there is no reason to be optimistic about stable commodity prices and the decline of inflation rate. Only when the excessively swollen purchasing power is controlled can we stabilize the commodity prices in general. While increasing the interest rate to attract deposit and increasing subsidies and strengthening price control to basically stabilize the prices of consumer goods, it is also necessary to take into consideration relaxation of control over the prices of high-grade consumer goods and luxury goods (and the levy of special consumption tax) on the premise that the people's basic standard of living is not affected or the levy of a special consumption tax on the basis of the existing price system so that the consumer prices are in reality close to the market prices. In reality, the prices of these commodities have been going up as a result of the increasing demand and have been included in the price indexes. The relaxation of control over these prices will not greatly affect the people's standard of living. However, it can stimulate the market, make things convenient for the masses, and help crack down on speculators.

It seems that we have followed a roundabout course in the price reform over the past few years. Instead of relaxing the prices of nonessential consumer goods, we have tried to resolve the price problem of basic consumer goods, which is the most difficult to solve. We are thus unable to achieve our goal. Although relaxing the prices of nonessential consumer goods in the period of improving the economic environment may affect the retail price indexes at the initial stage, it is still a good method for curbing inflation that can be considered. If we do not want to affect the retail price indexes, the method of subsidizing or reducing the prices of the basic consumer prices with the increased part of revenue after relaxing control over the nonessential consumer prices can be adopted.

At present, only when the measures of various sides are taken in a unified and coordinated manner can we achieve the goal of curbing inflation. No measure can be effective if it is implemented alone.

(Note: This article is a part the report entitled "A Study of the Macroeconomic Regulation and Control in the Period of Structural Change." The responsible persons for the subject include Wang Mengkui and Lin Zhaomu, and the main writer is Guo Shuqing. Those who attended the seminar were: Zuo Chenwen, Chong Yanzi, Yang Shubing, Yang Deming, Zhong Cheng, and Fan Rongyi.)

Major Factors Limiting Price Reform

40060414 Beijing JINGJI CANKAO in Chinese
7 Mar 89 p 4

[Article by Wang Yuanhong 3769 6678 7703, of the Forecasting Section of the National News Center: "Six Major Factors Limiting Price Reform"]

[Text] Since 1985 the retail price index has risen constantly. On the surface it looks as though price changes, which appear to weaken and then strengthen again, are more or less closely linked to the state's price reform measures. But the substantial scope and broad scale of price inflation in recent years cannot be attributed to price reform alone. Prices are linked to economic activity, regulated by economic interests, and form a composite reflection of the state of the national economy. Consequently, price reform is bound to be restricted by social, political, economic, and psychological factors.

1. Economic reform in China was initiated on the basis of our dual economic structure and certain shortages. In our dual economic structure, which is composed of an enormous heavy industrial system and an agricultural system saddled with a significant labor surplus, serious shortages of energy, raw materials, communications, transportation, and information have formed a bottleneck that limits overall economic growth. Internal accumulation in agriculture is weak and agricultural production is expanding slowly.

After economic reform was implemented, peasants shifted from the traditional agricultural sector to the contemporary nonagricultural sector. In one respect this shift produced a relative atrophy in agriculture, and in another respect it increased the load on basic industries. So on the one hand, in order to safeguard growth in agriculture and basic industries, the state had to take the initiative to raise product prices in these sectors, and on the other hand the gap between supply and needs in these two areas also spurred price increases for agricultural goods and basic industrial products.

Price inflation in agricultural and sideline products directly affects costs and pricing in the textile and food industries—both of which depend on agriculture for their primary raw materials—and simultaneously spurs price inflation in country fair trade. Because agricultural goods, sideline products, energy resources, and raw materials have a considerable range of influence, the state generally exercises strict price controls in these areas. Because other goods have relatively narrow ranges of influence, price rises in those areas are restricted relatively little and inflation occurs easily. As a result, after one cycle of this kind, prices for agricultural products and basic industrial goods hit "rock bottom," and the phenomenon of "parity restoration" appears. This forces the state to increase prices in these sectors once again, thus establishing a starting point for the next cycle of widespread commodity price inflation.

2. A reasonable pricing system is one based on market prices, but China is just now in the process of creating a market system, and the traditional economic forms give the market structure an abnormal aspect: above all, there are no clear restrictions on how property ownership rights, usage rights, and values are related to individual income among owners. Second, all sorts of key markets are just now springing up, and combined channels for circulating funds, talent, and goods and materials remain to be unclogged. Finally, there are no regulations on fair competition and no corpus of behavioral norms for different interests. Given this market pattern, enterprises can even use covert price increases and other extraordinary methods of competition to seek profits. In addition, each region and sector exploits advantages in natural resources or geography and utilizes administrative measures to compete with other regions in raising prices, "passing on" its own price inflation to the outside world. This makes price reform more difficult.

3. The occupational rigidity that is a legacy of the traditional system has made employment an extra-economic right unconnected to the health of the enterprise in which the laborer is employed. This has limited price reform enormously and even overall economic reform.

First of all, enterprises cannot cut excess or unutilized staff and, as a consequence, neither the laborers nor the occupational posts can exercise options in their best interests. Moreover, there can cannot be significant numbers of bankruptcies as an ordinary occurrence. Thus, restructuring must be realized primarily through new projects, and this has become a major factor in the inability to eradicate excess investment.

Second, because many enterprises in China commonly have a 20-percent labor surplus or even more, and because wages are still controlled to a certain extent by the state, enterprise staff, who tend to seek income parity, must constantly pursue new methods of doing so, such as through bonuses and payment in kind. The active labor costs of products produced by these enterprises are increasing constantly, and in order to safeguard employment and ensure that there is no reduction in tax revenues, the state has no choice but to permit enterprises to raise prices. This frequently causes prices to occupy a commanding position, and occupational rigidity gets expressed as price rigidity.

4. The world economic situation inevitably has an effect on the Chinese economy:

(1) When prices rise on the international market it is very easy to "import" outside inflation when we import commodities. And because our export goods are low-technology or primary processed goods, they suffer more often than not from declining prices, and this has a tremendous impact on the domestic market and commodity prices.

(2) The drive to open our economy to the outside world has progressively corrected a longstanding overvaluation

of the renminbi, and its devaluation is bound to spur domestic price increases. This tremendously limits reform in China, particularly price reform.

5. To a considerable extent, the way the people feel about reform also determines the success or failure of price reform. When certain consumer prices or cost of living indicators for workers rise rapidly the central government may feel the weight of public opinion from major urban areas, particularly the very large cities. Thus, the direction of public opinion (whether reasonable or not) frequently guides government policy, consequently affecting and impeding the central government's determination to carry out price reform.

6. Given the current economic situation, government action on price reform in China is quite limited. We can see from the course of 10 years of reform that government actions have not been entirely prudent:

(1) All along, the government has considered rapid economic growth, even growth ahead of schedule, to be its chief objective. It ignored the fact that growth ahead of schedule inevitably produces enormous demands that exacerbate existing shortages of natural resources. This puts foreign exchange and funding supplies in shorter supply and thus provokes commodity price increases, simultaneously ensuring that the government cannot draw upon more financial and material resources to make adjustments in the original structure that they so seriously misjudged, or to institute reasonable resource deployment. Moreover, generally this rapid pace in no way produces a simultaneous increase in economic returns. Because of price inflation and constant cost increases, effective supply actually does not increase at all.

(2) The purpose of price reform is to promote better economic development, but right now the two seem miles apart. The government frequently employs short-term policies and has no development policy that encompasses industrial, revenue, financial, or distributive policies capable of promoting effective increase of supply or economic restructuring.

(3) In theoretical propaganda, the government has overpublicized the advantages of reform and raised the common people's expectations for it. At the same time, it has failed to provide prompt, necessary guidance in the new concept of social value and standards of conduct.

'New Characteristics' of Economy
HK2205084989 Beijing JINGJI RIBAO
in Chinese 10 May 89 p 2

[Article by Qiu Xiaohua 6726 2556 5476: "New Characteristics of the Economic Situation"]

[Text] Since the beginning of this year, all localities and departments have scored initial achievements in carrying out the central government's policy on improving the

economic environment and rectifying the economic order, but at the same time some problems, which were not expected, have made their appearance. Some new characteristics are found in the national economic development.

These characteristics first of all found expression in "6 favorable tendencies." First, the agricultural development boasted a good start. In the first quarter, there was a big increase in the agricultural investment by different quarters; the state's expenditure for agriculture, among other things, reached 2,760 million yuan, 31.3 percent higher than the corresponding period last year; and the productive expenditure of per capita peasant household increased by 28.3 percent. Again, a sample investigation of peasant households' intention predicts, the grain area sown will increase by 20 million mu over last year; summer grain crops are growing well.

Second, there was a decrease in the industrial growth rate. In the first quarter, the industrial production increased by 10.4 percent over last year, but the incremental ratio was 6.3 percent lower than the corresponding period last year.

Third, the scale of investment was brought under control to a certain degree. In the first quarter, the fixed assets investment by the state-run units dropped by 3.3 percent as compared with the corresponding period last year. The capital construction projects amounting to 50,000 yuan and renovation projects were 3183 fewer than last year.

Fourth, the internal markets were relatively stable. In the first quarter, the total volume of retail sales was 22.6 percent higher than last year. It was a negative growth, if prices were taken into account. What merits our attention is that there have been buying sprees in some areas since late in February, because the local governments readjusted the prices of knitting wool and levied a consumption tax on color TVs.

Fifth, the foreign trade continued to grow. In the first period, China approved 1517 agreements utilizing foreign funds, 110 percent up on the corresponding period last year.

Sixth, the scale of bank loans was brought under control to a certain extent. Late in March the bank loans balance was 2,100 million yuan less than earlier this year, and 9,500 million yuan less than the corresponding period last year.

At the same time, there were more difficulties and contradictions facing the national economy. To sum up, they are "3 decreases," "4 refusals," and "5 irrationals."

"3 decreases":

There was a decrease in the state revenues. In the first quarter, the state revenues increased by 4.9 percent over

the same period last year, but the growth rate was 6.6 percent less than the corresponding period last year.

There was a decrease in the foreign trade. In the first quarter, the gross export value was \$9,660 million, an increase of 9.4 percent over the corresponding period last year, but the incrementary ratio dropped by 13 percent with the general trade decreasing by 5 percent.

There was a decrease in the economic returns of the enterprises. In the first quarter, the budgeted realized profits and taxes from the industrial enterprises ran at 35,400 million yuan, showing an increase of 4.3 percent from the corresponding period last year, but the growth rate decreased by 5.7 percent as compared with the same period last year.

"4 refusals":

The overall level of prices refused to drop. The national general level of retail prices for the first quarter was 27 percent higher than the same period of last year.

The growth rate of financial expenditure refused to be slashed. The internal financial expenditure for the first quarter was 16.3 percent more than the same period last year, increasing by 3.2 percent over the same period last year, and by 11.4 percent on the state revenues for the same period.

The gross import refused to decline. In the first quarter, the import value totaled \$11,500 million, a 21.3 percent increase over the corresponding period last year with the incrementary ratio swelling by 6.5 percent over the same period last year, and by 11.9 percent over the export value for the same period. An excessive increase in import value resulted in a bigger adverse balance of foreign trade.

The demand for consumption refused to decline. In the first quarter, wages paid by the banks and other expenditures paid to individuals increased by 27.7 percent as compared with the same period last year.

"5 irrationals":

The internal structure of industry was more irrational than before. More emphasis was still placed on non-national industry which had lower economic returns and was comparatively inefficient in increasing effective supply, and on investment products and high-grade durable consumer goods produced by the processing industry. The production of energy, raw and semifinished materials, industrial goods in aid to agriculture, and goods for everyday consumption grew slowly or even declined.

The pattern of investment was irrational. Work on state projects started slower than work on local projects. Of the aggregate investment in the capital construction for the first quarter, the state projects registered a

decrease of 8.3 percent as compared with the corresponding period last year while the local projects grew by 14.8 percent. The state budgeted investment was 24.2 percent lower than the same period last year and the extra-budgetary investment increased by 3.5 percent.

The makeup of the imports was irrational. In the first quarter, the imported goods which are subject to state control increased by a large margin. Of them, air conditioners were 41.1 percent up on the corresponding period last year, color TVs 340 percent, limousines 50.7 percent, cameras 290 percent, motorcycles 270 percent, video cassette recorders 690 percent, and radio recorders 250 percent.

The merchandise inventory was irrational. Late in March, the total value of the social merchandise inventory moved up by 23.1 percent on the same period last year, but in fact the rate declined if prices were taken into account.

The flow of the labor force was irrational. Since the beginning of this year, there has been an abnormal flow of rural labor force. Simultaneously, more people in cities and towns sought jobs. It is expected that the employment waiting rate will have climbed to 4 percent by the end of this year from 2 percent last year.

Initial results were achieved in the improvement and rectification, but some contradictions and problems became more distinct. What is most important at present is that the leadership at all levels must further seek unity of thinking, have a clear understanding of the situation, keep up to the improvement and rectification, readjust the economic structure, and deepen the restructuring so that we can overcome the difficulties and lay a solid foundation for the development of the national economy. At present it is necessary to do a good job in carrying out the following central tasks to ensure that we achieve solid results in the improvement and rectification this year.

—Preventing the industrial enterprises from competing with one another in a race for growth speed, and working hard to readjust the structure and improve the economic returns. The first quarter this year witnessed a conspicuous drop in the growth of industrial production, but the production grew every month, suggesting “an increase in temperature.”

Therefore it is necessary to carry out the policy of cutting down expenses and tightening up credits and see to it that the governments at all levels dedicate their main efforts to readjusting the structure and improving the economic returns rather than speeding up the industrial growth. At the same time, it is necessary to adopt special policies to support key enterprises and the production of key products, and increase the supply of the commodities which are in short supply and which can earn foreign exchange.

—Doing a good job of the field management of summer crops, which are now in their later stage of growth, and of spring ploughing. It is necessary to adopt effective measures to increase the areas sown to grain, cotton, and oil-bearing crops and to bring the arbitrary extension of areas sown to tobacco under control so that we can have a good harvest this year.

—Consolidating the financial order and solving the structural contradictions in the use of funds. It is necessary to tighten up the money supply and mainly rely on the following: readjusting the credit structure, consolidating the financial order, enacting corresponding laws and regulations, and preventing the practice of arbitrarily giving out money or articles in the name of raising funds, to ease the funds shortages, thus improving the state's macroeconomic control and regulation of credits.

—Continually consolidating the order of circulation and improving the management of market prices. The results of the measures to readjust prices which are to be implemented must be subject to strict assessments and the psychological capacity of the general population to adapt themselves to the price adjustments must be taken into account. It is necessary to improve the work of collecting and controlling taxes, and heavy taxes must be levied on those who evade taxes. They should not be allowed to go unpunished.

—Curbing demands and improving the work of clearing channels. It is necessary to expand consumption fields, encouraging citizens to invest in real estate, shares, and bonds, while encouraging saving, so as to ease pressure on the market.

—Improving the economic environment should go hand in hand with improving the social environment. It is necessary, taking the building of clean governments as a point of breakthrough, to tighten law and political discipline, strengthen the supervision and investigation of economic crimes, cultivate a favorable general mood of society, and maintain stability and unity.

Review of Inflation Control Policy

*HK2305054789 Beijing JINGJIXUE ZHOUBAO
in Chinese 7 May 89 p 2*

[Article by Tian Yuan 3944 3293, Feng Lixin 7458 4539 2450, and Wang Yukun 3769 5148 3824: “An Analysis of the Financial Policy for Controlling Inflation”]

[Text] 1. General views on the financial policy for controlling inflation:

As an important macroeconomic policy, the financial policy has been in force since August 1988. This policy is divided into major parts, one concerning revenues and the other concerning expenditures. The two are aimed at increasing revenues and reducing expenditures.

The policy on revenues:

1) Stamp duty was introduced on 1 October 1988 with the aim of exercising stricter management over the issuing of coupons, regularizing and legalizing all economic activities, and tapping new tax sources.

2) The State Taxation Bureau announced a "circular on inspecting and examining invoices" on 6 August 1988.

3) General inspections on taxation, finances, and commodity prices have been carried out on five occasions since 1981.

4) A feast tax has been introduced to guide people in reasonable consumption and alleviate the shortage of nonstaple food.

5) The "provisional regulations of the PRC on urban and rural land utility tax" were put into force in November 1988.

6) On 25 June 1988 the State Council announced the "provisional regulations of the PRC on the income tax of private enterprises."

7) A 10-percent regulatory tax began to be imposed on extrabudgetary funds in January 1989.

8) Movie tax came into force on 15 February 1989.

9) Stricter management has been exercised over tax reduction and exemption, over taxation, and over loan repayments before tax.

2. The policy on expenditures:

1) Strict control has been exercised over the purchasing power of social groups. Severe measures have been taken since the beginning of 1989 to resolutely reduce the purchasing power of social groups by 20 percent on the basis of 20 percent reduction in 1988.

2) Financial expenditures have been strictly controlled according to specific conditions. Wage and price reforms, funds to support agricultural production, expenditures for education and scientific research, and national defense spending have been guaranteed and the investment in fixed assets has been reduced.

3) Management over expenditures has improved and the expenditure structure has been adjusted. Working capital for financial expenditures has been used in larger fields; institutions are encouraged to operate as enterprises; and efforts have been made to improve the method of subsidizing loss-incurring enterprises and poor regions.

4) From 1988 to 1990, local financial contract methods will be improved on the basis of the original financial structure. With the exception of Guangzhou and Xian,

which have direct financial links respectively with Guangdong and Shaanxi Provincial Governments, 37 out of the 39 provinces, autonomous regions, municipalities directly under the central government, and cities on separate listing of the state, will exercise financial contract methods such as contracting for an increase in revenues, setting a retention percentage for total revenues, and contracting for the amount of revenues to be submitted to the higher authorities.

5) In 1988 preparations were made to file separate reports on central and local budgets, and account settlements so as to reflect the actual financial situation, to exercise democratic financial management, and to carry out mass supervision.

6) Local financial subsidies were increased to control market prices during the last Spring Festival. This was for the purpose of maintaining social stability.

3. The basic judgment on the existing policy:

The above general views may not be all-embracing but at least we can see that financial departments have implemented a number of policies to control inflation since August 1988. Due to various reasons, these policies have not fully displayed their role. For the coming 2 years it will still be difficult for financial departments to free themselves from their predicament. The process of controlling inflation is also a process of reorganizing financial work. Without a turn for the better in the financial situation, it is difficult to produce good results in controlling inflation. Only by relying on the monetary policy alone, it is impossible to maintain a balance between aggregate supply and demand or to effectively adjust the structures of the national economy, industry, and trades. State intervention in the economy should find expression in the financial field. In other words, it should manifest itself in the ratio between financial revenues and national income, in the average taxation level, and in mutual cooperation and restrictions of credit and financial policies. If these problems are not solved, it is impossible to control inflation or build a new mechanism to bring about a change for the better in the economic situation. Therefore we should straighten out various financial policies so as to have a better idea of our short-term, intermediate-term, and long-term targets.

1) In comparison with the large-scale inflation that has accumulated over the last 10 years, the current measures to control inflation are very weak because they can only help keep deficits within the limits set, instead of fundamentally solving inflation. China's inflation has resulted from the shortage of economic development resources; the irrational industrial structure; the demand for an excessively high development rate in economic construction and reform; and carrying out the processing industry on too large a scale to the neglect of agriculture, the energy industry, communications, and other basic industries and without paying attention to expanding production or forming a macrocontrol mechanism. All these are

related to the limitless expansion of local governments' financial contract system. Deficits incurred by local governments and obtaining overdraft and loans from banks have become important factors causing economic overheating. Therefore it will not do just to keep deficits of central finances within the limits set.

2) The existing anti-inflation financial policy is basically characterized by traditional old methods of reducing investments in capital construction and retrenching financial expenditures. Experiences and lessons have proved that another round of inflation will occur after a period of "reduction" and "retrenchment." Therefore it is necessary to form a long-term, regularized, standardized, and legalized economic mechanism and to optimize the economic structure. The existing financial policy just lacks this mechanism and can only be applied as a short-term measure.

3) The existing financial policy cannot help solve basic or technical problems because it basically falls into the category of local tax and does not cover a wide range of tax categories. As a result it does not affect much of tax payers' income. The little change after the enforcement of feast tax policy has proved this point.

4) Inflation has speeded up the increase in financial expenditures. In such cases, orders to retrench financial expenditures and carry out financial checks did not yield good results. In addition, different regions have different economic and income levels, and many regions, particularly remote and poor regions, do not have adequate funds for expenditure and have found the going tough. If retrenchment is introduced to these regions, this could be a serious cut on their economies. But economically developed regions will not be seriously affected by retrenchment. At most, problems similar to previous ones will appear if retrenchment is introduced to these regions.

5) The financial policy lacks a regularized nature and is being applied as a makeshift measure. This policy has made things more complicated. Many measures, including those concerning imposing "income tax on private enterprises" and exercising strict control over preferential tax, should have been implemented years ago. The delay in their implementation has prolonged the duration of inflation.

6) The financial retrenchment policy will weaken because of a lack of coordination with the credit policy. For example, the increase in bank interest rates has lowered the prestige of national bonds. So when state treasury bonds are issued in the future, interest rates are sure to increase and efforts will be made to adjust the interest rates on the state treasury bonds that were issued earlier. When the increase in interest rates on bank loans converts into a part of production costs, state revenue from income tax will drop. Since retrenchment was introduced to banks, the fund obtained from financial

tax has been used to supplement the shortage of funds in banks, thus making it impossible to enter this portion of revenue in state treasury.

7) There were deficits in the 1988 financial budget, and it is difficult to eliminate deficits in this year's budget. This proves that retrenchment cannot produce immediate results in controlling financial expenditures. Therefore much remains to be done in improving the financial policy, and without great efforts this will not be accomplished.

PROVINCIAL

Guangdong Urges Speeding Up Export-Oriented Economy

HK3105135089 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 31 May 89

[Text] The Provincial People's Government recently issued a circular on the issue of developing the export-oriented economy while improving the economic environment and rectifying the economic order. It calls on all cities, counties, and the departments concerned to make full use of the advantage of opening up to the world and lose no time to readjust the production structure in a bid to speed up the development of the export-oriented economy and strive for a sustained and steady economic development in our province.

The circular stresses that readjusting the production structure and making good use of the foreign-funds structure is a pressing matter at the moment. At present our province encourages foreign investors to make investments in such infrastructure projects as power, communications, and telecommunications; industrial projects of raw materials which our province has had to import in large quantities for a long time; some auxiliary industries including key spare parts, molding, and heat treatments; practical advanced technological projects; high-tech projects which can promote industrial and agricultural production to a higher level; new technological industries, including foreign exchange-earning agricultural projects; agrotechnological industrial projects which can help speed up agricultural modernization; and projects of the export-oriented processing industry.

Liaoning Private Enterprises Increase Dramatically

HK1705153789 Beijing CEI Database in English 17 May 89

[Text] Shenyang (CEI)—Liaoning Province in northeast China now has 6,747 private enterprises, 22 times the figure of two years ago.

According to an official from the provincial bureau of industry and commerce, these enterprises employ some 105,000 people and have a total registered capital of 360 million yuan.

Last year they turned over to the state 50 million yuan in profit quotas and taxes.

In addition, the official said, at least 10,000 private enterprises are doing business under the cover of collectively-owned firms in order to enjoy state-granted privileges to newly set up collective businesses.

Of the 6,747 enterprises, 61.4 percent or 4,142 are rural private firms and 4,481 are engaged in industry, handicrafts, construction and transportation.

According to the official, the most successful private firm has fixed assets totaling 5.4 million yuan and a staff of 400.

FINANCE, BANKING

Thoughts on Country's Welfare System

HK0706052989 Beijing RENMIN RIBAO in Chinese
25 May 89 p 5

[Article by staff reporter Dong Huanliang 5516 3562 0081: "Thoughts on Welfare—A Conversation With Liu Ruizhong of the State Institute of Economic Restructuring"]

[Text] A Low-Income Welfare Country

When I visited the State Institute of Economic Restructuring, Liu Ruizhong [0491 3843 0022], a young scholar, told me frankly, "Now China has become a low-income welfare country." Liu Ruizhong held that welfare expansion has become an obstacle to China's urban reform and has made it more difficult for China's urban reform to proceed.

People usually do not pay attention to things they have become accustomed to. For instance, in China people have become accustomed to welfare. Apart from the relief welfare provided on humanitarian grounds, the welfare currently enjoyed by Chinese citizens includes food, water, and electricity, which are provided by the government at low prices or with government subsidies attached; chicken, duck, fish, meat, and all types of commodities, which are provided by various work units to their own staff and workers; and free medical care and inexpensive housing, which are provided by the state. Liu Ruizhong said, "Compared with India and some other low-income countries, our country's per capita income is higher. However, the state expenditure on free medical care accounts for a large proportion of our country's gross national product. Compared with the lower-middle-income and upper-middle-income countries of the world, our country's per capita income is still from several hundred to several thousand dollars less than theirs, whereas our country's expenditure on public consumption is some 4.1 percent higher than theirs. The comparison made between our country and other countries in the world shows that despite our country's low

per capita income, our country's welfare level is obviously higher than that of ordinary developing countries in the world."

The Historical Reasons

Commenting on the evolution of our country's welfare system, Liu Ruizhong pointed out that in the first few years after liberation, our country began implementing the centralized planned economy. In order to assemble financial and material resources, carry out the building of modernization at a faster pace, and guarantee the provision of daily necessities to our people, our country, while implementing the low-wage system, distributed welfare goods to the people on a limited scale. At that time, people thought that the distribution of welfare goods to the people demonstrated socialist superiority. In the last few years, the state has begun levying bonus taxes. As a result, all kinds of welfare have popped up within a short period of time and have now become a tax-free distribution channel in China. There are also a large number of welfare goods in circulation in society. In 1985, the total wage volume of our country's urban staff and workers stood at 175.885 billion yuan, whereas their total nonwage consumption volume stood at 158.639 billion yuan. This means that our country's welfare expenditure in the year 1985 was equivalent to 90 percent of our country's wage expenditure. At present our country's welfare expenditure is still on the increase and is becoming the "head" of the "gray income" in our society.

Welfare Expansion Has Become an Obstacle to China's Reform

Welfare expansion is mainly found among employed citizens and other types of citizens in the urban areas. China's decade-long reform shows that in areas where the welfare level is relatively low (for instance, in the rural areas), reform has advanced more rapidly. On the contrary, in areas where the welfare level is relatively high (for instance, in the cities, especially in the big cities), reform has proceeded fairly slowly due to various restrictive factors. However, factors obstructing the urban reform process are very complicated, the welfare level being one of the key factors. Liu Ruizhong made the following analysis in this regard:

—Changes in social welfare are always in the form of a "single track," that is, social welfare can only be increased and cannot be cut back. This is the so-called "welfare rigidity." Due to the rigidity of this "single track," at the initial stage of our reform, we can only implement the double-track system so as to guarantee the supply of welfare products and the circulation of extra commodities on the market through our planned economic structure. This will undoubtedly narrow the scope in which our new economic structure operates.

—Production, supply, and marketing have formed a chain. The distribution and sale of welfare products at

low prices will naturally lower the prices of raw materials and energy, thus making it more difficult to smooth out commodity prices. Since commodity prices cannot be smoothed out, a lot of enterprises are still suffering "policy losses" at present. As a result, our country's "Bankruptcy Law" has failed to be enforced and fair competition among various enterprises have also been out of the question.

—The great disparity in respect of welfare among various units will naturally obstruct labor mobility and slow down the reform of our country's labor system. Over the past few years, on the labor service market we have seen residence cards and work permits sold at high prices with welfare attached. Such high "prices" have prevented a lot of staff and workers from moving from one work unit to another.

—Welfare distribution usually takes the form of physical goods or price subsidies for physical goods, which is obviously a practice of "eating from the same big pot." To people who enjoy welfare, welfare is a bestowed income and is not related to their labor and thereby cannot stimulate their work enthusiasm. Furthermore, welfare expansion has also enabled staff and workers to develop an erroneous concept of "creditor right," as if welfare is something their work units "owe" them. If they cannot get the welfare, they think that their work units or the government owe them a "debt" and they will then bring a lot of "accusations" against their work units or the government.

Welfare expansion has directly affected the market-oriented reform. Moreover, the state social welfare expenditure has kept increasing by a large margin over the past few years. For instance, between 1978 and 1986, China's government price subsidies increased by 274 percent, which worsened China's financial deficit and inflation. This situation has had a negative impact on China's overall reform environment.

It Is Necessary To Foster a New Concept of Welfare

I said to Liu Ruizhong, "People have already come to realize the maladies caused by excessive welfare expansion. However, people have always regarded 'life-long social security' as the most brilliant aspect of the socialist system. It seems that we should take a comprehensive look at this question."

"Yes, you are right," replied Liu Ruizhong. "The socialist welfare system guarantees the basic necessities of life and the normal work of the staff and workers, which is indeed a superior aspect. However, everything has its limitations. It is all right to provide 'a bowl of thick soup' to each and every laborer. But blindly increasing both the quality and quantity of the 'thick soup' will not only increase the financial burden of the state and that of the work units but also give rise to conflicts among the staff and workers."

Liu Ruizhong held that welfare funds should be distributed according to the principle of equality and in the light of the basic life needs and normal work of the staff and workers. It is necessary to adhere to the principle of "sending charcoal in snowy weather" [providing help at the appropriate time] and ban the practice of "adding flowers to the brocade" [gilding the lily]. At present, it is necessary to take steps to ban the provision of all types of unauthorized welfare by improving the economic environment and rectifying the economic order. "Only by freeing ourselves from the fetters of welfare will it be possible for us to deepen our reform."

INDUSTRY

Main Industrial Output for April

HK1905104589 Beijing CEI Database in English
19 May 89

[Text] Beijing (CEI)—Following is a list of the output volume of main industrial products in April, 1989, released by the China State Statistical Bureau.

Item	Unit	Jan-Apr 89	Apr 89	Percentage over Jan-Apr 88
Bicycle	10,000	1317.47	364.04	1.1
Sewing machine	10,000 sets	314.90	86.20	2.2
Watch	10,000	1937.00	516.50	11.7
TV set	10,000 sets	916.41	250.08	35.7
Color TV	10,000 sets	363.42	93.89	50.3
Radio	10,000 sets	402.05	114.31	-23.0
Tape recorder	10,000 sets	819.39	230.39	25.3
Washing machine	10,000 sets	362.18	98.36	13.9
Camera	10,000 sets	79.12	21.13	-0.8
Fan	10,000 sets	1652.76	589.92	26.4
Refrigerator	10,000 sets	277.93	78.29	47.2
Chemical fibre	10,000 tons	49.79	13.22	14.2
Yarn	10,000 tons	141.07	38.75	-5.1
Yarn	10,000 pcs	785	216	
Cloth	100 m.m	54.56		5.47
of:				
Pure cotton	100 m.m	34.15	9.75	-2.2
Chemical fibre	100 m.m	20.37	5.71	-2.5
Silk	10,000 tons	1.46	0.43	-5.2
Silk fabric	100 m.m	4.61	1.33	-5.9
Woolen fabric	10,000 m	7882	2230	-7.7
Knitting wool	10,000 tons	6.67	1.91	9.0
Gunnysack	10,000 pcs	23008	6461	-20.0
Garment	10,000 pcs	5.97	1.86	
Sugar	10,000 tons	341.73	26.74	11.4
Salt	10,000 tons	447.00	280.90	32.2
Cigarette	10,000 cases	972.80	262.00	-2.7
Beer	10,000 tons	188.17	70.38	19.1
Liquor	10,000 tons	138.56	35.86	-9.7
Machine-made and kraft paper	10,000 tons	353.12	103.93	3.0
of:				
Newsprint	10,000 tons	8.90	2.31	1.1

Anastatic printing paper	10,000 tons	24.34	6.51	7.3
Synthetic detergent	10,000 tons	45.13	13.40	17.1
Daily fine aluminium products	ton	28055	8241	-18.5
Plastic product	10,000 tons	112.91	31.38	5.7
Farming film	10,000 tons	19.41	4.29	6.5
Bulb	100 million	5.90	1.64	-3.4
Iron ore	10,000 tons	4958.40	1368.10	-0.8
Pig iron	10,000 tons	1786.40	478.60	-5.2
Steel	10,000 tons	1904.90	511.20	-4.5
Rolled steel	10,000 tons	1516.55	402.54	-2.6
Ferro alloys	10,000 tons	57.68	16.36	5.8
Coke	10,000 tons	1467.41	381.09	-5.4
Ten non-ferrous metals	10,000 tons	63.31	16.97	2.9
of:				
Copper	10,000 tons	15.81	4.16	-6.7
Aluminium	10,000 tons	23.19	6.06	5.2
Copper products	10,000 tons	12.50	3.41	
Aluminium products	10,000 tons	10.96	3.27	
Antimony aluminium	10,000 tons	39.31	11.25	-5.0
Sulphuric-iron ore	10,000 tons	321.93	96.67	10.4
Phosphorus ore	10,000 tons	499.01	142.11	7.2
Sulphuric acid	10,000 tons	364.36	102.55	-1.6
Dense nitric acid	10,000 tons	11.08	2.70	5.8
Sodium carbonate	10,000 tons	88.70	23.11	4.2
Caustic soda	10,000 tons	101.76	26.76	5.2
Ethylene	10,000 tons	49.66	11.92	17.5
Calcium chloride	10,000 tons	71.15	21.34	-2.6
Pure benzene	10,000 tons	19.78	4.42	1.1
Synthetic ammonia	10,000 tons	629.34	172.46	-7.2
Fertilizer	10,000 tons	587.23	167.18	-4.8
of:				
Nitrogen	10,000 tons	462.87	128.97	-3.2
Phosphorous	10,000 tons	122.97	37.32	-10.4
Potash	10,000 tons	1.38	0.90	
Chemical pesticide	10,000 tons	7.24	2.22	-2.0
Paint	10,000 tons	23.90	7.22	-10.9
Dyestuff	10,000 tons	4.16	1.19	2.0
Pharmaceuticals	10,000 tons	6.14	1.72	0
Chinese patent medicines	10,000 tons	7.98	2.29	-11.7
Tyre	10,000	1047.38	302.07	17.0
Synthetic rubber	10,000 tons	10.27	2.93	11.3
Film	10,000 meters	5017	1496	-19.7
Color film	10,000 meters	4643	1377	-21.0
Plastics	10,000 tons	70.07	18.22	30.4
Timber	10,000 c.m	1932	385	-2.7
Artificial board	10,000 c.m	81.50	25.89	2.2
Cement	10,000 tons	6151.30	1869.10	4.1
Plate glass	10,000 cases	2711.78	698.11	21.9
Power equipment	10,000 kw	291.11	84.21	24.6

Alternating-current motor	10,000 kw	1361.00	359.45	-7.0
Industrial boiler	ton	22671	6252	-0.4
Machine tool	10,000 sets	5.92	1.74	8.2
Numeric control tool	set	672	171	-17.6
Precision machine tool	set	477	131	42.8
Large machine tool	set	1452	338	-5.8
Automobile	10,000	20.22	5.54	6.6
Truck	10,000	13.32	3.71	6.0
Tractor (over 20 h.p)	10,000	1.60	0.41	-15.8
Small tractor	10,000	41.15	12.81	-14.1
Locomotive	set	226	61	-18.4
of:				
Railway motor	set	148	42	12.1
Steam motor	set	222		-76.1
Power motor	set	56	17	5.7
Passenger car	set	549	178	-16.9
Freight car	set	7819	2217	5.0
Internal combustion engine	10,000 kw	2092.20	620.20	19.8
Fishing ship		8	2	14.3
Civil steel ship	10,000 tons	13.06	4.00	-51.1
Computer	set	42	11	-48.8
Mini computer	set	18166	4805	28.8
Pocket calculator	10,000 sets	135.67	40.09	21.7
Film projector	10,000 sets	0.48	0.13	-12.7

notes: m.m = million meters; c.m = cubic meters;
pcs = pieces; m = meter

Shaanxi Commission Reports 'Marked Turn' for Better

HK1805054089 Xian Shaanxi Provincial Service
in Mandarin 2330 GMT 16 May 89

[Text] According to the Provincial Economic Commission, the external environment of the province's industrial production started improving in April, and there has been a marked turn for the better in energy production and supply.

According to statistics, the provincial total output value of industrial production in April exceeded 2.3 billion yuan, a 17.8 percent increase over the same period of last year. The total cumulative output value of industry in the first 4 months of this year topped 7.78 billion yuan, accounting for over 30 percent of the annual plan.

With the execution of some measures adopted by the provincial government to boost energy production, the province's coal production in April has reached the highest record of monthly output this year, with a total output of 2.76 million tons, up by 35 percent over March. The pickup in coal production has guaranteed a stable generation of electricity and the strain in power supply for industrial production has been eased. There has been a relatively large increase in the industrial output of most prefectures and cities of the province,

and major industrial enterprises and industrial production has seen steady development. The economic results of the province's industrial production in April have also grown in step with its output and major targets of economic results have improved considerably. Taking industrial enterprises within the local budget as example, their gross sales in April increased by about 30 percent over the same month of the previous year; and profits and taxes rose by 38.3 percent, both of which were much more higher than the 12.19 percent increase in their output value. This shows that the industrial economy of our province has begun setting upon the course of improving economic results while our province is improving the economic environment and rectifying the economic order.

FOREIGN TRADE, INVESTMENT

Goal of Greater Economic Cooperation With Pacific Rim 40060606

[Editorial Report] China, being the largest developing country in the Pacific Rim, naturally must make this region its primary focus in opening up to the outside world. Professor Ji Chongwei, executive director of the State Council's Economic, Technological, and Social Development Research Center, presents this view in Shanghai SHIJIE JINGJI DAOBAO in Chinese 1 May 89 on p 12.

In illustrating China's current significant presence in the Pacific Rim, Ji notes that its population accounts for half of the region's population and that trade between China and the Pacific Rim countries accounted for 68 percent of China's overall trade in 1987. He also points out that 69 percent of overall foreign investment in China, of which 92.4 percent was direct investment, came from this region. Ji believes that China and the Pacific Rim have much to offer each other. China's largest trading partners and major countries for financial, industrial, scientific and technological cooperation are all located here. Conversely, this region's economic development would benefit much from China's market potential, low labor costs, abundant natural resources, and industrial, scientific, and technological development capabilities.

Ji believes China could benefit from the following forms of economic cooperation. Countries in the region should cooperate with China in sectors that are currently restraining the pace of China's economic development such as transportation, communications, energy, raw materials, industry, basic facilities, and education. The United States and Japan should share some of their excess production capacity with China whose current production capacity is seriously inadequate. Second, Ji indicates that China would like to take advantage of the regional division of labor to join the developed and newly industrializing economies in processing and assembly work. China could become involved, for example, in the production of spare parts, components, and

peripheral equipment for the auto, machinery, electronics, and household appliance industries. Third, China should strive to engage in cooperative research, development, and production in the space, aviation, optical instruments, information and communications, and bioengineering hi-tech industries, since foundations for their development already exist. Developed countries, he maintains, should ease their restrictions on tech-transfers to China in the machinery, electronics, and other basic industries. Fourth, acknowledging that Singapore, Thailand, and other ASEAN countries have already made sizable investments in China, Ji says China welcomes even more investments by ASEAN countries in the future. Finally, Ji affirms China's intention to set up Sino-foreign joint ventures and ventures overseas to produce a steady source of the raw materials China lacks.

Restoring Order to Country's Foreign Trade System

40060444 Beijing LIAOWANG [OUTLOOK] in Chinese
No 10, 6 Mar 89 pp 28-29

[Article by Li Yafei 2621 0068 7236, Meng Zijun 1322 1311 0689, and Liu Jingyue 0491 2529 2588: "Order Can Be Restored to China's Foreign Trade System by Further Harnessing and Reestablishing It, Changing Our System of Financial 'Assignment' to Taxation, Establishing Policy-Making Rules for Putting Money Into Circulation by Central Banks, Further Readjusting Tariffs, Eliminating Direct Intervention in Foreign Trade Business by Administrative Departments at All Levels, and Truly Giving Free Rein to the Regulatory Effects of Economic Levers, Such as Prices, the Exchange Rate, and Interest Rates"]

[Text] China's foreign trade system has made significant advances through a series of reforms. Our foreign trade has been invigorated and its volume has grown year after year. But an ideal foreign trade environment of "controlling without stifling and invigorating without bringing chaos" has still not evolved and there is still chaos in our foreign trade system.

I. What Are the Causes of the Chaos?

An analysis of China's 1988 foreign trade environment by people in foreign trade circles has summed up the chaos as being due to the following four causes:

A. Raw and Processed Materials That Are in Short Supply Are Being Both Imported and Exported

Even though China has a shortage of leather and has to spend much foreign exchange to import it every year, some regions and sectors are still exporting large amounts of it. We imported 1 million cowhides and exported 2 million in 1987, and our rising leather export trend continued in 1988. China has a shortage of scrap steel year after year and has to recover and import old scrap ships to make it up. But strangely enough, all of our ports are competing to export scrap steel. In the first 9

months of 1988, we exported 460,000 tons of scrap steel, or 12 times as much as in the same period in 1987, making it impossible for steelmills to maintain their normal production. China has to import about 40 percent of its nonferrous metals, such as copper, aluminum, lead, and zinc, to make up shortages, while our large exports of these metals have still been doubling and redoubling in the last few years. China's sugar production fell in 1988, so we imported 180,000 tons in the first 9 months, while exporting 230,000 tons in the same period. The same conditions apply to other resources, such as crude oil, coal, pig iron, industrial diamonds, caustic soda, and cotton yarn.

B. Domestic Prices Are Being Forced Up by Panic Buying While Foreign Trade Prices Are Being Forced Down by Competition

A "general war" in which the price of Chinese chestnuts was forced up by panic buying, broke out in Hebei Province in the fall of 1988. Competition among certain foreign trade companies in Beijing, Tianjin, and Hebei forced the procurement price of Chinese chestnuts up 80 percent. At the same time, the procurement price of red beans grown in Tianjin also doubled. Panic buying also forced up the prices of other commodities, such as prawns, pears grown in Hebei Province, walnuts, goat hides, sheep's wool, and rabbit fur, one after the other. But conditions were the opposite for many export commodities. Competition among some foreign trade companies for more export customers, opportunities, and international markets forced prices down and caused a drain on lucrative resources. Different companies sold the same variety of pears grown in Hebei Province at a price difference of several Singapore dollars a box in Singapore. The quoted price of some beer glasses produced by one factory is \$9 a dozen, while that of others is \$7.20 a dozen. Some foreign trade companies used the improper method of forcing the price down to export leather work gloves to West Germany, forcing a 51-percent drop in the average list price and causing a loss of more than \$10 million.

C. Competition Is Being Carried Out on Unequal Terms

Some foreign trade companies carry out contract management, others assume the sole responsibility for their profits or losses, while yet others turn only a little of their foreign exchange over to the state. Since there are discrepancies between plans and policies, the percentage of foreign exchange kept by different companies varies, and the foreign exchange rate is regulated by market forces, different profits are earned by various companies and in various areas. For instance, foreign trade companies in Shenzhen can keep 95 percent of their foreign exchange, which is much more favorable terms than in other areas, while the foreign exchange rate is higher in Shenzhen than in other areas because it is regulated by market forces. Thus, foreign trade companies in Shenzhen earn correspondingly higher RMB profits, which gives them a correspondingly stronger ability to engage

in panic buying of products in other provinces and areas. These unsynchronized reform steps and competition being carried out on unequal terms creates chaos between international and domestic market prices and makes China sustain losses.

Competition being carried out on unequal terms also provides the conditions for crimes, such as profiteering and bribery, and makes administrative control more difficult. Since all commodities that are controlled by export licences earn high export profits, getting a licence means earning foreign exchange and getting rich. Thus, getting licences by dishonest means, such as taking advantage of various relationships, buying them, and getting them in return for bribes, has become rampant. An export licence for 10,000 tons of pig iron can be sold in Tianjin for 100,000 to 200,000 yuan and even some Hongkong businessmen, strangely enough, also have Chinese mainland export licences.

D. Policy "Conflicts" Between Central and Local Governments Make It Impossible for Macroeconomic Control Levers To Work Properly

Faced with competition being carried out on unequal terms and much chaos, all government departments are forced to take steps to control it. But since policies do not dovetail, policy "conflicts" have also appeared. For instance, while the central government takes various steps to control exports in order to alleviate the domestic shortage of raw and processed materials, local governments use all possible means to increase exports of these products in order to increase their revenue and fulfill the directives on foreign exchange earnings that are given them by the central government. This causes conflict between central and local governments. Taking another example, not only are deregulated foreign exchange rates used to import raw and processed materials, but state-regulated prices that are lower than international market prices are then still used to distribute them to production enterprises. These policies spur local governments and enterprises to use all possible means to get more foreign exchange from the state, import more goods and materials, and engage in more processing projects, which sharpens import inflation and investment hunger and puts more pressure on foreign exchange demand.

II. Three Key Issues Must Be Settled To End the Chaos

These various kinds of chaos and policy conflicts are closely related to our irrational use of the three basic economic levers of prices, the exchange rate, and interest rates.

A. Our Prices Are Irrational

This means mainly that our regulated domestic prices for primary products, such as raw and processed materials and energy, being far lower than international market prices is slowing the optimization of our export product mix. Since lower prices for raw and processed materials

means lower exchange costs and less money will be lost or more earned by exporting these materials, exporters naturally want to export more of them. And since exporting raw and processed materials is more profitable than selling them at regulated domestic prices, production bases also want to export more of them. In addition, since financial "assignment" and local foreign trade contracting were put into effect, some local governments are taking stronger administrative steps to ensure that local products are exported. This artificially severs the economic relations among domestic enterprises and regions and can cause panic buying of these raw and processed materials that are in great domestic demand and general price wars among enterprises and local governments.

B. Our Exchange Rate Is Irrational

Our current official foreign exchange rate is 3.72 RMB for \$1. But it actually takes more renminbi than that to earn \$1 from China's export commodities. This exchange rate discrepancy causes earning of foreign exchange from exports at a higher price (more renminbi must be spent) and spending of foreign exchange for imports at a lower price (less renminbi can be spent). It also creates the problem of exporting and selling abroad being less profitable than importing and selling on the domestic market, and causes too little exporting, too much importing, and a foreign trade imbalance. Only by rationalizing our exchange rate and bringing our official renminbi exchange rate into line with actual conditions can our export "slump" and uncontrollable importing be stopped and a general foreign trade balance be realized through exchange rate regulation.

C. Our Interest Rates Are Irrational

Our interest rates on bank loans are now lower than our inflation rate. This spurs competition among importers by all possible means for low-interest loans for importing and thus, increases uncontrolled importing and is unfavorable to a foreign trade balance. Only by raising interest rates on loans, and eliminating the abnormal condition of interest rates being lower than the inflation rate, can the regulatory effects of interest rates on foreign trade be brought into play. Production that is in line with China's economic development strategy and has export advantages can be given loans on favorable terms and guaranteed support. The uncontrolled growth of production that does not accord with China's economic development strategy and lacks export advantages must be restricted through raising interest rates on loans.

III. Only Coordinated Reforms Can Effectively Restore Order to China's Foreign Trade System

The experts point out that rationalizing our prices, exchange rate, and interest rates are the three key issues both in restoring order to our foreign trade system and also in deepening our foreign trade reform. The problem is that the economic dislocation that has appeared because of the demand and currency inflation existing in

China's economy is unfavorable to readjustment of prices, the exchange rate, and interest rates. Moreover, this economic dislocation is caused to a great extent by our system of financial "assignment" and too loose control of money and credit.

Our present financial system is one in which central and local tax revenue is assigned according to fixed percentages, or local finance departments are responsible for quotas of central revenue. This is an improvement over the past system of centralized revenue and expenditure, but it leaves local finance departments concerned only about local interests. The experts think that certain major foreign trade conflicts cannot be thoroughly rationalized until certain basic national economic issues are settled. This means that readjustment of our prices, exchange rate, and interest rates and deepening of our foreign trade system reform cannot be accomplished all in one step. But this process must be shortened as much as possible. Thus, we must begin to pay attention to coordinating foreign trade system reform with reform in other areas, such as finance, banking, taxation, and goods and materials. In order to coordinate our reforms, we must further improve the economic environment and rectify economic order, gradually change our financial "assignment" system to a taxation system in which central and local tax revenue is assigned according to tax categories, establish policy-making rules for putting money into circulation by central banks, evolve strict and effective macroeconomic control forces, further readjust our tariffs, and make our tariff regulation more purposeful and effective. Moreover, we must create the conditions to gradually give general foreign trade management rights to production and foreign trade enterprises, carry out a general foreign trade agent system, enable enterprises to truly become domestic and foreign corporations that have decision-making power and assume the sole responsibility for their profits or losses, and reduce as much as possible direct intervention in foreign trade business by administrative departments at all levels.

Chemical Industry Uses Foreign Loans

*HK1805090989 Beijing CEI Database in English
18 May 89*

[Text] Beijing (CEI)—China's chemical industry has up to now absorbed foreign investment totalling about 2.1 billion U.S. dollars.

Among the total amount are 544 million dollar World Bank loans, 260 million dollar Asian Development Bank loans and 1.3 billion dollar loans provided by Italian, British, Canadian, Japanese, French, the Federal Republic of Germany, Belgian, Holland, and Swedish governments.

Joint ventures have absorbed 177 million dollars in foreign investment. Those utilized through compensation trade and processing with clients' materials totaled 50 million dollars.

Most of the World Bank loans have been devoted to the energy-saving transformation and adjustment of product mix, which can increase urea output by 440,000 tons and phosphamidon and compound fertilizer by 380,000 tons. The loans have also been used in the reformation and extension of several chemical mines.

Other loans have been utilized in the introduction of advanced fertilizer technology and the improvement of economic results of chemical enterprises so as to alleviate China's excessive demand for some chemical raw materials, such as titanium white and propylene glycol.

Trade Expansion, Structural Changes

HK1606041289 Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 3, 20 Mar 89 pp 69-74

[Article by Chen Gongyen 7115 0364 3508 of the economic technology and social development research center of the State Council: "Trade Expansion and Structural Changes"]

[Text] I. Causes for Expansion of Foreign Trade

Since the 1980's, our country's foreign trade has developed rapidly. In 1981 the ratio of the gross volume of export and import trade was 15.9 percent of the GNP but by 1987 it had risen to 27.9 percent (see Table 1).

Table 1: Ratio of Import & Export Trade in GNP ¹

Year	Percent of GNP	Percent of Gross Output Value of Industry and Farm	Percent of Social Gross Output Value
1981	15.9	9.7	8.1
1982	15.3	9.3	7.7
1983	15.3	9.3	7.7
1984	17.7	11.1	9.1
1985	24.8	15.5	12.5
1986	27.3	17.0	13.5
1987	27.9	16.7	13.4

Note: (1) Sources of various tables in this article are from "The Statistical Yearbook of China," 1985 to 1988 editions; "Statistical Monthly of the Maritime Customs of China," June 1988; and "Maritime Customs' Rapid Statistics," June 1988.

The high-speed growth of our country's foreign trade was realized in the course of the continuous depreciation of the renminbi and reform of the foreign trade and foreign exchange structures. Concretely speaking, the basic factors pushing the expansion of our country's foreign trade are:

1. The high-speed development of industrial and agricultural production has enlarged and expanded the domestic market for imported commodities and has enabled the rapid increase in the volume of commodities available for export, at the same time providing the needed foreign exchange earnings for expansion of the import trade.

2. The strategy of opening to the outside world and internally invigorating development and reform has laid the ideological foundation for the expansion of import and export trade. The strategic supposition of making the special economic zones take the lead, forming of coastal opening up regions with the coastal cities and towns as the centers, and carrying out "large imports and large exports" has transformed the general strategy of opening to the outside world concretely into economic functions which have the aim and ability to participate in international division of work.

3. Foreign trade activities have gradually shaken off the shackles of the past operation and management structure of a high degree of centralization. Due to prolonged foreign trade control, up to 1979 there were only 192 foreign trade enterprises in our country. After 1980, as a result of gradually expanding the foreign trade management power of the localities and certain departments of the central government and the State Council, for the sake of implementing the development strategy of the coastal regions, deciding to enforce the regional foreign trade management contracting responsibility system, and delegating the power of examining and approving the establishment of enterprises engaging in foreign trade to the provinces, municipalities and autonomous regions, and thus satisfying the demands of many production enterprises for directly engaging in foreign trade, up to now in the whole country there are some 5,000 enterprises approved to engage in foreign trade. Following the delegating of foreign trade management and operation power, the number of import and export commodities directly under the control of the central government has been greatly reduced, the foreign trade management structure has begun to become pluralistic and this has established the necessary structural conditions for the development of import and export trade.

4. Simultaneously with the change and reform of the foreign trade structure, rather large changes have occurred in the distribution system of foreign exchange. Before 1979, the foreign exchange distribution system in force was a highly centralized one with the main features of unified receipts, and unified expenses and administrative appropriation and transfer. The distribution and use of foreign exchange were subjected to mandatory planning and control. It was prescribed that all foreign exchange earnings must be sold to the state and that the state would make unified distribution of the centralized foreign exchange according to the foreign exchange disposal plan formulated by the foreign exchange planning department. This was the usually called "Foreign exchange control." In August 1979, the State Council decided to enforce the foreign exchange retention system, that is, concurrently with the state effecting a centralized control of foreign exchange, making a unified balancing and ensuring the use of foreign exchange on major points or projects, the unit making the foreign exchange earnings (localities, departments, or enterprises) was given a fixed ratio of the foreign exchange. The foreign exchange earning unit was allowed a fixed

amount of decision-making power regarding its use, and was also permitted to take part in regulation and to transfer the right of using the retained portion to units urgently needing foreign exchange. In our country, the current ratio of retention of foreign exchange earnings differs in different regions. On the basis of being solely responsible for their own profits and losses, the retentions in the four special zones and Hainan province are 100 percent; in regions domiciled by minority races the retention is 50 percent, in Guangdong and Fujian the retention is 30 percent; and in other regions, 23 percent. The foreign exchange retention system is the first assault on foreign exchange control. it stimulates the enthusiasm of the foreign exchange earning units to increase exports and at the same time gives these units greater autonomous power in the use of foreign exchange. The combination of this system with the disintegration or power-delegating in foreign exchange greatly strengthens the capability, and vim and vigor of the localities, departments, and enterprises in pushing imports and exports. After 1984, following the further disintegration of the power in foreign trade and the high-speed growth of the internal economy, the stimulant role of foreign exchange retention on the import and export trade has become even more obvious. In particular, the release of the several years' accumulated energy of the foreign exchange earning units led to the serious loss of control over import. In 1984 and 1985 the imports (in terms of renminbi) increased respectively by 47.1 percent and 102.7 percent over the preceding year, greatly surpassing the growth speed in exports during the same periods.

5. Another important factor affecting foreign trade consisted of the changes in foreign exchange rate. Theoretically speaking, depreciation in the value of a country's currency is helpful to "encouraging exports and restricting imports." However, this must be supplemented by: (1) a fairly higher degree of the autonomous character in the import and export trade; (2) it is necessary to consider the combined role of the flexible character of the supply of export commodities of our country, the flexible character of external demand for our country's export commodities, and the flexible character of foreign countries' supply of commodities for our country's imports (that is foreign countries' export commodities to china). Precisely speaking, only when both the flexible character of the supply of our country's export commodities and the flexible character of external demand are big, can exports be increased; contrarily, when the flexible character of external demand is relatively small or even lacking, or when the supply of our country's export commodities lacks in flexibility, there

will be no possibility of an increase in exports; only when the flexibility of our country's demand for import commodities is rather large and the flexibility of foreign countries' demand for the supply of export commodities from our country is rather small, can the imports be reduced; otherwise when our country's demand vis-a-vis import commodities lacks flexibility or when the flexibility of foreign countries' supply of import commodities to our country is rather large and there is the possibility of lowering the prices in marketing, to restrict imports will meet with unexpected difficulties.

In recent years, the expansion of our country's foreign trade is realized in the course of the continuous depreciation in value of the renminbi. Depreciation of the renminbi or raising the exchange rate plays a promotional role in the growth of our country's exports whereas, on the import side, as a result of by far the great proportion of our country's imports consisting of the country's urgently needed equipment, raw materials and high-grade consumer goods, and the flexible character of the demand for their imports is very small the role that can be played in restricting imports by raising the exchange rate is not large. At the same time, it should be pointed out that in the present state our country's import and export trade is to a large extent the function of policy and structure, and the role of the exchange rate has been downgraded.

II. Special Feature of Trade Expansion: Slow Structural Changes

From an analysis of the motive force of trade expansion, it can be seen that in recent years the expansion of our country's foreign trade is principally the result of the reform and opening to the outside world. The current question is to what extent this high-speed trade development can be attributed to the improvement in the trade structure.

If we judge the trend of the changes in our country's trade structure from the ratio occupied by initial-grade products in the gross volume of imports or exports, we can discover that, on the one hand, in the course of trade expansion in recent years, despite the fluctuations, yet seen from the long run, be it in imports or exports, the rate of initial-grade products showed a declining tendency. On the other hand, seen by splitting up the stages, prior to 1985 exports of initial-grade commodities showed a rising tendency while after 1985, a declining trend. Contrarily, prior to 1985, imports of initial-grade commodities showed a declining trend whereas after 1985, a rising trend (see table 2)

Table 2. Composition of Import & Export Commodities (percentages)

	1983	1984	1985	1986	1987	1988 (Jan to Aug)
Exports:						
1. Rate of initial grade products	43.28	45.66	50.58	36.43	33.55	32.12
2. Rate of industrial products	56.72	54.34	49.42	63.57	66.45	67.88
Imports:						
1. Rate of initial grade products	27.15	19.00	12.52	13.17	16.00	17.92
2. Rate of industrial products	72.85	81.00	87.48	86.83	84.00	82.08

Hence, seen from the situation of the import and export trade as a whole, after 1985, the fall in the rate of initial-grade products in exports was to a definite extent offset by the rise in the rate of initial-grade products in imports; the drop in the rate of initial products in our export trade may be attributed to a considerable extent to the worsening of the export trade conditions of the energy products and did not reflect improvement in the trade structure. In the analysis of large-bulk import and export commodities, the feature of the slowness of the structural changes in the course of trade expansion is manifested most outstandingly.

First, seen from the export structure, from 1984 to the first half year of 1988, changes in our country's first 20 categories of large-bulk export products were mainly centered in positional changes among them and replacement of the product categories seldom occurred (precisely speaking, in 1985 pharmaceutical products replaced toys, in 1986 cotton replaced rabbit hair, in 1987 medicines replaced drawn silk and in 1988 residuals of oil-grilling of bean products, toys, and footwear replaced pharmaceutical products, medicines and live hogs). This shows that so far no essential changes have taken place in the export structure.

We may break the 20 categories of commodities in the list of exports of the maritime customs into the following groups: (1) Energy products including crude oil, product oil and coal; (2) Agricultural and sideline products and their simple manufactured products including cotton, grain, fishery products, vegetables, live hogs, edible oil seeds, tea leaves, rabbit hair, canned goods and residuals of bean products after oil grilling; (3) Textile raw materials and their manufactured products, including cotton yarn, cotton cloth, drawn silk, garments, real silk piece-goods, filature silk, carpet and polyester-cotton cloth; and (4) Others, including pharmaceuticals, medicines, toys, and footwear. From 1984 to the first half year of 1988, the decline in the export rate of initial-grades products in our country was principally due to the drop in the export benefits of the energy products while at the same time there was an increase, but no decrease, in the export of agricultural and sideline products. During this period, out of the gross volume of the first 20 categories of large-bulk export commodities the export volume of energy products dropped by nearly 19 percent while the export volume of agricultural and sideline products, and their manufactured products rose by nearly 12 percent. As a result of these changes, the central point of our export structure has gone through a limited reorganization, that is, from the sequence in 1984 of "energy-textiles-agriculture" to that of "textiles-agriculture-energy," and the important nature of export of energy products has been greatly lessened. So far as our country is concerned, the shrinkage in our export of energy products is both pleasing and saddening. It is saddening because a large slice of foreign exchange earnings is cut off which increases the pressure on other foreign exchange earning sectors but it is gladdening because it enables a portion of the energy to become available in the domestic market.

In spite of the fact that no essential change has occurred in the export structure, yet accompanying the limited reorganization of the export central composition was another trend and this was an obvious decline in the ratio of the first 20 categories of large-bulk commodity products in the gross volume of exports. This ratio was as high as 53 percent in 1984 but dropped to only 38 percent in 1988.

Second, seen from the import composition. Compared with the exports, the imports demonstrated a rather large flexible character, outstandingly manifested as follows: (1) Changes in quantity and in the position occupied in the large-bulk import commodities were relatively frequent; (2) Among the varieties of the 20 large-bulk import commodities the substitution or replacement rate was relatively high: in 1985, it was 15 percent; 1986, 10 percent; 1987, 15 percent and in 1988 as high as 30 percent (that is, six categories of products were replaced). A relatively high substitution rate in imports: (1) This could be related to the statistical classification of the commodity items, such as for example between whole-set equipment and lathes or textile machine no complete substitution relationship could exist, because the scale embraced by the former is relatively large and can include the latter; (2) Possibly this was related to compulsory substitution; particularly in the first half year of this year, copper, aluminum, zinc, and their alloys were completely edged out from the first 20 categories. Since this type of substitution was not caused by changes in the industrial structure, the stringency condition in the domestic market was aggravated; (3) The most basic cause was: compared with export, import was less subjected to the restrictions of the domestic industrial structure and, as a result, it possessed a relatively larger degree of freedom and adjustability.

Unlike the single or unitary nature of large-bulk export commodities, the classification of large-bulk import commodities is relatively complicated. We have divided the first 20 categories of import commodities listed by the maritime customs into the following several groups: (1) Raw materials from agriculture, including wool, timber, and natural rubber; (2) Raw materials from heavy and chemical industries, including iron and steel, chemical fertilizer, farm medicine, soda ash, iron ore, ethylene, polypropylene, copper, zinc, aluminum and its alloys; (3) Textile raw materials, including synthetic fibre used in textiles, long synthetic fibre and yarn; (4) Transport tools including ships, motor vehicles and spare parts; (5) Production tools including various kinds of whole-set equipment, lathes and machines; (6) Food materials including grain and sugar; (7) Electronic machines including television sets, television kinescope and telecommunications materials; and (8) Others, including paper pulp, paper, paperboard, medicines, medical and clinical equipment, and plywood. It can thus be seen that of the 20 categories of large-bulk import commodities, the category of raw materials occupies a position of extreme importance in our country's import commodities, occupying 60 to 70 percent of the whole, that the raw materials from agriculture, except a slight

drop in certain individual years, have basically shown a tendency of a sustained rise, and that, on the contrary, raw materials for textiles have dropped in a sustained manner after 1985. The conditions for raw materials from the heavy and chemical industries are in a rather complex state. There were fluctuations of 49 to 55 percent in the years from 1984 to 1987 and there was a large-scale drop in the first half year of 1988, and this was probably related to the compulsory substitution system mentioned above. In the imports of tools and equipment, the import of transport tools and vehicles reached the peak in 1986. In 1987, import of ships was "substituted," and at present efforts have begun to popularize the "home-production" of motor vehicles and to resort to other means of "substitution." From this, it may be assumed that import of transport tools and vehicles will continue to decline. Compared with this, import of production tools is more concentrated in the processing industry and not in the raw materials manufacturing industries and trade. In the import of consumer goods, import of basic consumer goods, that is, food products, heavily dropped in 1985 but showed a sustained rise since. As for the import of high-grade consumer goods, the fluctuations have been rather great. In 1985, import of television sets was 4.88 percent of the volume of the first 20 categories of import commodities but since then there was a drop and in 1987 it was edged out of a position in the first 20 places and dropped to the 23rd place among all the import commodities. Although in 1988 import of television sets was rather insignificant, the import of television kinescopes still occupied the 15th place among all the imports and this, plus the other telecommunications materials, occupied a ratio of as high as 6.26 percent of the first 20 categories of import commodities.

As a whole, there has been no change in the nucleus structure according to the order of "raw materials-consumer goods-processing tools" in the import commodities of our country and in the import of raw materials the structure following the order of "raw materials from the heavy and chemical industries-raw materials from agriculture-textile raw materials" has also suffered no change. In spite of the fact of there having been no essential change in the import structure, the degree of decentralization of imports has been greatly strengthened. In 1984, the volume of the first 20 categories of import commodities occupied a high ratio of 51 percent of the gross volume of imports, it dropped to 33 percent in 1987 and to 27 percent in the 1st half year of 1988. The extent of decentralization in imports is obviously higher than that in exports.

Finally, seen from the entire trade structure, we can reach the following conclusions:

1. In our country at present the nucleus structure of imports and exports is of the "raw materials substitution and exchange type," that is, use of initial-grade energy and textile raw materials (such as crude oil, or product oil, coal, cotton, cotton yarn, and filature silk) to exchange for high-grade raw materials of heavy and

chemical industries and raw materials for chemical fibre textiles and the typical form is to export crude oil in exchange for processed petro-chemical products. This trade form has the following defects: (1) This can only temporarily and to a limited extent ease the conditions of the stringent supply of raw materials in our country and cannot basically remove the industrial pattern of the backwardness of the raw materials industries. (2) Due to the fact that in the international market, the export market for initial-grade raw materials tends to fall and import market for high-grade raw materials tends to rise, the deterioration of the trade conditions cannot be avoided while the process of the exchange and substitution of raw materials is in reality the process of the transfer to foreign countries the processing profits. In one word, the prerequisite for trade of the raw materials exchange and substitution type is the recognition and strengthening of the existing industrial structure and the consequence is transformation of the industrial defects into a decline in trade.

2. Correspondingly, our trade expansion in recent years is basically plane or surface expansion on the basis of an industrial low-grade cycle while "export of a hungry or starving nature" is the main feature of plane expansion. In a trade structure of the raw materials substitution and exchange type, if it is required to import more raw materials and manufactured goods urgently needed in the country, then it is necessary to export more domestic-produced raw materials. The result is the appearance of the phenomenon of exports of the hungry and starving nature, while accompanying the export of a hungry and starving nature is quite possibly the transfer of shortages, that is, importing raw materials for the sake of easing the supply of commodities in the domestic market must pay the price of the domestic supply of the export raw materials becoming even more stringent. Take the three commodities (steel materials, copper materials, and aluminum materials) for example: in recent years the export of these three commodities increased sharply. In 1987, compared with 1985, the export volume of steel, copper, and aluminum materials increased respectively by 240 percent, 530 percent, and 350 percent. Concomitant with the sustained increase in these three products, the tense situation in the domestic market was dairly aggravated, becoming one of the principal factors for the large-scale rise in commodity prices in recent years. In the markets for agricultural sideline products and textile raw materials, exports of a hungry and starving nature and the phenomenon of shortage transfer have also appeared at times.

3. The sub-nucleus structure of our country's import and export trade is the use of consumer goods of the relatively lower grade (such as garments) in exchange for high-grade durable consumer goods (television sets, small motor vehicles). Because the imports are concentrated in completed products and insufficient attention has been paid to introduction of technology which should be of key importance, the result is not only the squandering of large amounts of foreign exchange on these commodities but also, and more importantly, the

delaying of the import substitution process. Conversely, improvement of the import structure is impeded.

4. The practice of using low-grade raw materials in exchange for relatively higher-grade raw materials and the import structure of using relatively lower-grade consumer goods in exchange for relatively higher-grade consumer goods have produced serious effects against the up-grading of our country's industrial structure, because the essential content of the up-grading of the industrial structure is the employment and spread of new technology whereas the introduction of advanced technology obviously cannot be realized in the process of the import of raw materials and consumer goods. In other words, our country's existing import structure is to a very large extent intended to satisfy the demands of the domestic market, or, we may say, it comprehends imports leading to the hungry and starving type and is not for the sake of up-grading industry.

III. Import Substitution, Export Orienting and Industrial Upgrading

A trade structure which takes raw materials substitution and exchange as the nucleus illustrates that in the course of the expansion of our country's external trade the slow structural changes are mainly caused by the restrictions imposed by the slow up-grading process of the domestic industrial structure; and that, conversely, the trade expansion in recent years has obviously played no promotional role in the changes in the domestic industrial structure. Hence, the phenomenon of trade expansion and industrial structural changes promoting each other that are seen in certain newly rising industrialized countries or regions did not fully appear in the course of trade expansion in the 1980's in our country.

The basic features of our country's present-stage industrial structure are: (1) While the varieties of natural resources are complete and their gross volume is also fairly substantial, the ability to convert these natural resources into raw materials is relatively weak; (2) In comparison with the raw materials industry, the processing industry has achieved a rather deformed development and insofar as the social gross demand is concerned, its processing capacity is still rather insufficient; (3) This thereby forms the multi-layer structure of "gross demand larger than processing ability and larger than the raw materials production capacity." The main causes for the formation of this structure are: (1) Excessive inflation of gross demand; (2) The price structure is irrational and the low prices of raw materials cannot lead capital to flow into the raw materials industries; and (3) More importantly, lack of a scientific industrial policy, the investment system being irrational and economic planning being of a blind nature.

Take for example the production and consumption of steel materials. After several decades of efforts to take "steel as the central link," the basic structure formed is: consumption of steel materials from steel production

from iron smelting from picking of iron ores. In recent years, although the newly increased production capacity of iron ores through the opening up of new iron mines has far exceeded in absolute quantity the newly increased production capacity of pig iron smelting, yet seen from the speed of increase the newly increased capacity in iron smelting has obviously been faster than that of the excavation of iron mines. As a result, the phenomenon of the shortage of iron ores not only has not changed but has also worsened, and this is shown in the continuous increase of the import of iron ores. Seen from the absolute scale, the newly increased steel refining capacity is far larger than that in iron smelting and as a result, the phenomenon of the shortage of pig iron and of cast-away steel is being aggravated daily. Due to the shortage of raw materials, certain steel plants cannot be in full operation and the increase in the output volume of steel products is far smaller than the newly increased production capacity in steel refining. For this reason, up to now, in the production of steel materials and the processing system the existence of the multi-layer shortage structure has remained unchanged while that of the domestic consumption of steel materials, 25 percent and over, still needs to depend on imports. Shortages of the same nature and imbalance in structure likewise exist in crude oil production and its processing system, as well as in the production of textile raw materials and its processing system.

The imbalanced structure of many stages has put our country's imports and exports in a situation as follows: on the one hand, export of manufactured products, suffering from restrictions imposed by the shortage of raw materials, strong domestic market demand and severe competition in the international market, cannot expand on a large scale; on the other hand, the composition of import commodities, suffering from the domestic market demand and restrictions of the industrial structure and foreign exchange earnings, naturally will concentrate on raw materials and high-grade durable consumer goods; restrictions on the introduction of advanced processing techniques will force the processing technology to become backward and, conversely, adversely affect the competitive power of the manufactured products in the international market and domestic markets. The stalemated state between multi-layer shortages, together with the import and export structure with raw materials substitution and exchange as the nucleus, implies that our country is facing the following two difficult selections in handling the relationship between foreign trade and stabilizing the domestic markets: on the one hand, in order to stabilize the domestic market and meet the demands of the processing industry, it is necessary to import large quantities of raw materials and introduce advanced manufacturing techniques, and at the same time to restrict the export of the raw materials urgently needed in the domestic market; on the other hand, in order to provide the large amount of foreign exchange for imports, it is necessary to greatly increase the export of raw materials and manufactured products made in the country. The result will be

strengthening the demand pressure on the domestic raw materials market. The only effective measure to change this state of affairs is to correctly handle the relationship between import substitution, export orientation, and upgrading of the domestic industries.

So-called import substitution means that with respect to those products which cannot be produced domestically or the production techniques which are not up to the required standard, they should be produced in the country through the introduction of technology and equipment. Hence, the process of import substitution is the process of upgrading the industries and concurrently the process of improving the import and export structure. Without import substitution, there cannot be the speedy development of an export-oriented economy. After World War II, the newly industrialized regions like Taiwan and South Korea have practically and concurrently gone through the three large development stages of import substitution, export orienting, and the combination of import substitution and export orienting (that is, heavy and chemical industrialization). This illustrates the existence of a strong innate relationship structural changes in trade and rise in industrialization or economic growth.

Our country is currently in the stage of heavy and chemical industrialization. In this stage, the liaison between upgrading of industries and trade is manifested in the following: (1) Heavy and chemical industrialization requires a large amount of funds and advanced technology—so far as a developing country is concerned, this cannot be self-provided and must depend on the important and merging of funds from abroad; (2) whether or not, after a stated period, the large amount of merging of foreign funds and cost of importing of equipment can be repaid is determined by whether or not the industrial structure established through the heavy and chemical industrialization can produce and provide more export commodities, that is, determined by whether or not the new industrial structure is of an export-oriented type; (3) in the early stage of the process in heavy and chemical industrialization involving the conversion from an import substitution economy to an export-oriented economy, an adverse balance in trade can hardly be avoided, and particularly this is all the more so in the case of a country in which the processing industry is fairly developed but the supply of raw materials is relatively insufficient; (4) prior to the change in the domestic industrial structure, the export structure cannot have any real changes and hence the foreign exchange required for the imports can only be procured through depending on increasing the volume of the existing export commodities but (5) in order to satisfy the needs of industrial up-grading and at the same time without over-cutting the import of raw materials sorely needed, changes must be made first in the import structure, that is, by means of an adverse trade balance intensify the import of heavy-chemical technology and equipment. hence, in order to complete the process of

heavy-chemical industrialization which is also the process of "adverse trade balance—changes in import structure—up-grading of domestic industrial structure—changes in export structure—elimination of red figures in trade," we must adopt the following measures:

1. Formulation of an industrial policy which slants to the heavy-chemical industry with the nucleus of a fixed orientation towards such raw materials industries as steel products and petrochemicals; and adoption of legal, economic, and administrative measures to definitely ensure the major flow of government investments in the country to the heavy-chemical industry.

2. Under the precondition of changing the import structure and making it conform with the domestic-slanting industrial policy, allow the existence of a large amount of trade red figures in the heavy-chemical industrialized sector.

2. Regarding the export of raw materials which are scarce or lacking, enforcement of an export licence system under the unified control of the central government and firm adoption of measures to restrict the import of high-grade durable consumer goods.

4. If the conditions are favorable, encouraging foreign merchants and domestic private capital to directly invest in the processing industry, expanding the foreign exchange earning power, and concurrently making use of foreign loans for major investment in the heavy-chemical industry.

Full utilization of the strategy of using import and export trade, and merging of funds from abroad (including short-term red figures in trade) to up-grade the domestic industrial structure which has heavy-chemical industrialization as the main content. This is the strategic measure to basically rectify the insufficient production capacity of the raw materials industry in our country. If in the process of environmental treatment, too much attention is paid to the objective of having a balanced state in foreign exchange receipts and expenditures, or if we feel satisfied with the import and export structure of the raw materials substitution and exchange pattern, then it will be difficult to realize the wishes of stabilizing the domestic raw materials market or to remove the inflation pressure in the course of the plane expansion of foreign trade.

Fujian Exports Total \$400 Million

*HK1805091189 Beijing CEI Database in English
18 May 89*

[Text] Fuzhou (CEI)—The export volume of Fujian Province totalled 402 million U.S. dollars in the first four months of this year.

The coastal province has worked out a blueprint to attract foreign investment. Foreign businessmen are

encouraged to set up export-oriented and productive projects which accord with the state-set priorities.

They are also encouraged to run solely foreign-funded projects or joint, cooperative ventures including basic facilities, industrial and agricultural projects and help the existing enterprises to introduce new technology.

The province, which faces Taiwan across the Taiwan straits, wishes that the percentage of investment coming from Taiwan business people would exceed one third of the total foreign investment.

ECONOMIC ZONES

Hainan Enacts Regulations for Development Zone
HK2905000789 Hong Kong ZHONGGUO TONGXUN SHE in Chinese 0313 GMT 27 May 89

[Report: "Hainan Speeds up the Formulation of the Management Regulations for the Yangpu Development Zone"]

[Text] Haikou, 27 May (ZHONGGUO TONGXUN SHE)—Hainan is speeding up the pace of legislation for its first "free harbor"—the Yangpu Development Zone. The authorities are now formulating the Management Regulations for the Yangpu Development Zone. This was revealed by a Hainan provincial government official.

According to this official, experts from inside and outside the province have been invited to formulate these regulations, which will absorb the advanced and successful management experiences of similar development zones in other countries and will positively adopt management measures found to be effective elsewhere in the world. The regulations will maintain state sovereignty over this development zone and will give foreign investors full decision-making powers in their business operations and full legal guarantees for their legitimate interests and rights.

LABOR

Characteristics in Unemployment Problem Situation

40060538 Kunming JINGJI WENTI TANSUO [INQUIRY INTO ECONOMIC PROBLEMS] in Chinese No 3, 20 Mar 89 pp 53-55

[Article by Li Ming 2621 2494: "A Tentative Inquiry Into the Fundamental Characteristics of Unemployment in China at the Present Stage of Its Development"]

[Text] The unemployment problem has become a kind of subject of its own in economics; it has an internal momentum in the commodity economy and is of an objective inevitability in socialized large-scale production.

In China's system of planned commodity economy, various factors, such as its economic laws, technological structural elements, the level of its productive forces, the industrial structure, as well as labor productivity, and large scope of economic returns, can be causes of unemployment. This is particularly so because of the huge population of China, its abundant manpower resources, the need to move a large part of the agricultural labor force to other sectors, while on the other hand society has only a limited capacity to absorb them, and capital is extremely short, which makes it unavoidable that a manpower condition arises that is beyond the capacity of any particular department or any particular enterprise to resolve. We may therefore say that there is in China at the present stage not only the technical basis or the soil for unemployment to arise, but that we have indeed the objective reality of unemployment in China. The present article attempts an analytical study of the fundamental characteristics and the role of various types of unemployment and to make certain relevant suggestions.

First characteristic: Coexistence of invisible and visible unemployment. Suggestion: Guidance toward a preponderantly visible unemployment.

Traditional concepts have had us believe that the socialist system can only demonstrate its superiority by not allowing unemployment to exist and by guaranteeing opportunity to work to every person capable of working. Guided by this ideology, we have all along adhered to a policy of low wages and high employment. Reviewing the results of over 30 years of practical application, we see that due to the mishandling of the trifold relationship of wages, employment, and social development, the various undertakings of society did not achieve full development. In a state of things where society actually had no need for increased manpower, we blindly increased the number of employed, had three person's food do for five persons, and had three person's work performed by five persons. This could only lead to lower labor productivity, shortening of the effective work day, overstaffing of positions, organizational duplications, and low work efficiency. It is estimated that the present on-the-job "unemployed" throughout China may be as high as around 25 million, or between 20 to 25 percent of the total work force. From now to the year 2000, another 20 million will every year reach working age in China, causing supply of manpower by far to exceed requirements. After placing the resulting surplus labor force into the enterprises, it will hardly be possible to rationally coordinate the key elements of material production, and the value they will create will to different degrees be below labor costs and remunerations; they may even create no value at all, and merely exercise a negative economic effect. This invisible unemployment, having so many idle or semi-idle staff and workers as a result of the full employment policy, is a waste of limited material resources as well as a waste of the valuable manpower resource, which has aroused widespread concern.

There are now three types of visible unemployment in China at the present stage: One is that portion of the

naturally growing labor force for which there is no employment; they are usually called "persons awaiting employment." The second type are those who now, due to the development of the commodity economy and the effect of the system of having the superior succeed and the inferior eliminated, have generally a choice of a work place, and who rather remain unemployed, if there is no suitable work place. Most of them are persons with certain technical abilities or skills or skilled workers. The third type refers to cases where in the course of transformations, expansions, or contractions of enterprises, appropriate changes were made in the disposition and composition of the manpower resource. In such cases not only technologically backward and badly managed enterprises may dismiss many members of their staff and their workers, but even technically advanced and efficiently managed enterprises may also effect retrenchment of staff and workers, if personnel have been unable to catch up with technical developments or because technical progress allowed reduction of manpower. As a consequence, such changes created a certain contingent of unemployed. The major characteristic of visible unemployment is that one can immediately recognize the disposition of one's means of production and key elements of production and take effective action, also to reduce waste and loss, reduce product unit cost, enhance labor productivity, and improve effective utilization of work hours. As to the workers themselves, visible unemployment will make them fearful of unemployment and have them do their utmost to avoid it. It will eliminate the attitude of comfortably waiting for automatic promotions and will eradicate tendencies toward indolence. It will stimulate people to exert themselves to the utmost to advance in their careers and will in the end enhance the quality of workers.

In view of the fact that invisible unemployment conceals much of the true facts and entails such shortcomings as increasing unit product costs, impeding improvement of labor efficiency, weakening work enthusiasm of staff and workers, and wasting of all kinds of resources, I believe that it is very necessary to convert all invisible into visible unemployment and to make it a social affair. We must go the road toward making labor an item subject to market regulation and must institute a labor incentive mechanism based mainly on visible unemployment. However, visible unemployment is a very complex matter, and one conclusion is very clear—it awaits a whole series of reform measures, such as the deepening of the enterprise structural reform, establishment of an unemployment insurance system, formation of a labor market, which all could, therefore, only be gradually instituted.

Second characteristic: Coexistence of structural unemployment and technology-caused unemployment. Suggestion: Guidance toward preponderance of technology-caused unemployment.

At the present stage, China's unemployment mostly appears as structural unemployment. First, it is linked to the structure of the work force itself; second, it is linked

to the changes in the economic structure; third, it is linked to changes in the local production structure; fourth, it is linked to the adjustment of the industrial structure. As a result of these factors, some workers are unable to find full employment and become unemployed. This kind of structural unemployment is of an external form, there is the idea that realignment will be effected, and it has little stimulating effect on economic growth. However, social production is continuously developing, and the causes of unemployment cannot possibly be eliminated, especially during the process of economic structural reform, so that it will not be possible to avoid normal structural unemployment.

In these days of modern technology, economic growth does not mainly rely on expanded employment, but relies on raising the educational and technological level of the workers, the use of new technical equipment, and rationalization and modernization of business management. In other words, it relies on technical progress, and it is very likely to discriminate in employment opportunities against untrained workers. This is bound to create technology-caused unemployment, because skills may not be up to what production development requires and may prove insufficient for the jobs available. In the course of economic growth and technical progress, the economic structure will be continuously changing. Some trades will go down or be eliminated, some trades will go up and rapidly develop, all this will have some workers become unemployed due to their technical backwardness. They should agree to undergo education in advanced technologies in order to become reemployable. As this technology-caused unemployment works, one of its aspects is increased employment, while another aspect is also the creation of unemployment. Looking at the trend of economic development, we see that over 40 years of history since the end of the war has proven that under the prevailing conditions of production technologies, a country's economy may continue to grow in circumstances where "unemployment and job vacancies coexist." That is why we may say that following the continuous development of science and technology, technology-caused unemployment will be with us for a long time. It will constitute a benign cycle of employment-unemployment-technical training-reemployment, and will have a positive effect by promoting technical progress and economic growth. We should, therefore, advocate a preponderance of technology-caused unemployment.

Third characteristic: Coexistence of on-the-job unemployment and unemployment with competitive connotations. Suggestion: Guidance toward a preponderance of unemployment with a competitive connotations.

The situation in China of having a work force which by far exceeds requirements gave rise to a certain amount of nominal employment without sufficient work to perform. The condition of on-the-job unemployment was inevitable under the policy of low wages and maximal

employment. Assigning all persons "awaiting employment" to jobs in the enterprises, without regard to the actual needs and capabilities of the enterprises, did, outwardly, appear to have eliminated all unemployment. In actual fact, however, the enterprises had more personnel than work for them to do, and among staff and workers there was a great disparity between those who worked hard and those who idled away their time. The result was a pervasive atmosphere of indolence, which weakened the perception of hard work among staff and workers. The negative effect that this engendered seriously hampered the reform of the enterprise hiring system and of the labor system. It delayed progress in the wage reform and in the price reform, as well as in the effective and rational mobility of talents and in the improvement of enterprise quality, making it impossible to achieve smooth progress in improving labor composition. The falsehood and shortcomings of on-the-job unemployment have become more and more evident and have become a major obstruction for deepening enterprise reform and developing the socialist commodity economy.

Facing the merciless market, unemployment with competitive connotations brings about stimulation as well as risk for those involved, as it urges every worker to work diligently, and to continuously strive to improve his or her technological capability to meet the demands in the competition. The fear of unemployment engendered by competition is, theoretically speaking, the joint product of socialized large-scale production and commodity economy. It is therefore inevitable and normal in the process of socioeconomic development. It is a fountainhead of motivation for social progress. Socialized large-scale production determines industrial structure, technological structure, and production operations. It is a process of dynamic development, and commodity economy accelerates the continuous change and perfection of this systematic structure. This determined that social labor force in its movement must be at times adjusted, recomposed, and renewed, and unemployment will of course accompany such actions. Conceptually, unemployment with competitive connotations does not signify that a person will be unemployed for a long time and fall into dire straits, except in the case of downright lazy persons. If a person works hard on improving himself, he will find employment opportunities all over the place. In this sense, a certain unemployment with these competitive connotations will contribute to a continuous improvement in the quality of the labor force, and as a consequence raise the cultural level of the whole nation and enhance enterprise culture and economic returns as well as social progress. If we would have to choose between on-the-job unemployment and employment with competitive connotations we can, therefore, only choose the latter, because its positive effect is easy to see. Although unemployment with competitive connotations also entails certain risks, and could to some extent temporarily affect social stability, but seen in its historical context, it will gain in return rapid improvement in enterprise efficiency, and, furthermore, will lay the economic foundation for long-term social stability. On-the-job unemployment, on the other hand, can gain in

return only a short-term social stability by directly paying the price of sacrificing the economic efficiency of enterprises.

Fourth characteristic: Coexistence of a properly proportioned unemployment rate and labor market regulation. Suggestion: Guidance toward a preponderance of the operational mechanism of a labor market.

On the foundation of socialist public ownership of the means of production, and according to the law of the best disposition between labor force and means of production, and also in view of establishing the new system of socialist commodity economy, to have a properly proportioned unemployment rate is very necessary in China to form a reserve force for the newly arising industries. It is beneficial for the capability of the commodity economy to absorb manpower, beneficial for providing immediately manpower if needed in production, and for greater mobility of the labor force. It is, furthermore, beneficial to keep the workers aware of employment competition, as it also urges the labor force to give full service at their posts, and to exert themselves to the utmost of their potential labor capacity. It clarifies whether a rational integration of the labor force with the key elements of material production has been achieved, and promptly supplements insufficiencies in the plan. Since China is practicing planned commodity economy, the plan cannot always be without occasional flaws and will always to some extent show certain limitations. A comprehensive and rational disposition of the labor force throughout the entire society would be difficult and also unrealistic to expect. This then determines that in addition to the dispositions in the plan, there will also be some people who are left to plan their employment by themselves, and the existence of some unemployed population cannot be avoided. However, the unemployed population must not be limitless; in levels and categories it must be amenable to guidance and control. As to what rate would be a properly proportioned unemployment rate, any artificial determination would be contrary to economic law; the boundary lines could be drawn here only by feedback from actual practice.

The existence of an unemployed population demands correspondingly the establishment of a labor market to allow free market regulation. Under the condition of commodity economy, the "barometer," constituted by competition and market, functions not only for the objective means of production, but also for the subjective key element of production, which is the labor force. In other words, regardless whether it is for market competition or for improved composition of the work force, what is required here is an appropriate labor market to effect regulation, and to function as a receptive "reservoir." If enterprise production relies on market regulation, and the demand for manpower is centrally allocated and centrally determined by the state plan, this is bound to lead to incongruity in socioeconomic operations, making it impossible for manpower, this important key element of production, to be rationally used,

and impossible to increase economic returns. Only through free regulation by a labor market can manpower, just as commodities, become subject in a process of market transactions, and can it run parallel with and not contrary to the development of the entire commodity economy. The regulatory functions of a labor market will not only be beneficial for the rational disposition of the two kinds of key elements of production, but also for enabling a dual competitive choice, namely of workers and of enterprises. The enterprises will have the right to select the best labor force they need, while the workers will have the right to select an enterprise in which they can give full play to their talents and which offers best conditions. As a consequence, this will enable us to attain the objective of improving the disposition of our manpower resource. Competition between enterprises will directly lead to technological progress and enhanced business management in the enterprises, and as a consequence will be critical for success or failure of the various enterprises. Competition between workers will lead to their diligent study of general educational topics and scientific and technological knowledge, and as a consequence enhance the performance of the labor force.

To sum up, study and exposure of the basic character and role of unemployment in China at its present stage, and the suggestion of appropriate measures to cope with the situation, is of important strategic significance as well as of immediate significance in theory as well as in practice. Guiding the intertwined functions of the various different types of unemployment will be beneficial for the full mobilization of work enthusiasm among staff and workers, as it will also be an effective way to resolve the organizational overstaffing that generally exists in enterprises, which entails low business efficiency, large-scale waste, and low rates of returns. It will also forcefully promote smooth progress in the reform of the wage system and of the price system.

POPULATION

Why Country 'Lost Control' of Population Growth
40060451 Beijing LIAOWANG [OUTLOOK] in Chinese
No 10, 6 Mar 89 pp 22-23

[Article by Hu Angang 5170 7254 6921: "Why Has China Lost Control of Its Population Growth in Recent Years?"]

[Text]

I. China's Birthrate Has Risen Again Versus China's Population Growth Is Out of Control

There are two completely different opinions and explanations about why the size of China's population has grown in recent years. One version is that our birthrate has risen again, which conforms to the laws of population growth, and the other is that our population growth is out of control and we have a serious population problem. Based on our present runaway population

growth trend, our population will top 1.2 billion 6 years ahead of schedule in 1994 and might pass 1.3 billion by the year 2000. Demographers point out that our excessive population growth is both a historical phenomenon and also a future reality that we will have to face up to. If the serious pressures that it creates cannot be alleviated in the 21st century, they will sharpen all of our existing conflicts, such as political, economic, social, resource, and environmental.

II. Why Has China Lost Control of Its Population Growth?

The beliefs that "traditions should be passed on to future generations," "men are superior to women," and "many children are a blessing" are still prevalent in China. A farming economy characterized mainly by manual labor is still the major form of social production in our vast rural areas. The reforms that were carried out since 1978 have certainly not changed our traditional mode of production. Instead, they have strengthened the economic function of the family as the basic unit of production. In addition, our rural social welfare and social security facilities have developed very slowly since the founding of the PRC and peasants are generally still strongly motivated to have more children. Families with more manpower are now correspondingly expanding the scope of their family production, increasing their family earnings, and getting rich quicker. This has been a strong incentive for peasants to have more children and build up their family fortunes.

A change in which the masses of people of childbearing age have acquired too strong a desire to have children, has occurred in China's population growth since the 1970s. In the midst of this exceptionally spontaneous change, strict enforcement of China's population control policy was safeguarded by a high degree of political and organizational centralization and coordination. But the recent rural reforms have brought about a great change in the structure and functions of administrative organs at all levels and shaken up the administrative setup of family planning to varying degrees. Many areas no longer have women leaders (in charge of women's affairs in production teams) and there are widespread problems in subsidizing full- and parttime cadres to carry out family planning work. The effectiveness of China's population policy has been greatly weakened in recent years by the lack of strong organizational safeguards.

Another objective and powerful factor that effectively controlled our population growth in the past was that our strict national system of residence registration and our administrative setup restricted the freedom of movement of our population. The immobility of our permanent population also made it easier for organizations at all levels to count our population and control its growth within their jurisdiction. Our population mobility is now increasing in number and scope and making it hard for us to enforce family planning control. The large increase in recent years in the percentage of our rural families

who flee for their lives and drag out ignoble existences is closely related to this.

In addition, we have found from a quantitative analysis of all the key variables that affect our women's birthrate, such as social, economic, and political, that the government's family planning policy has played the biggest role in reducing the birthrate (by almost 50 percent).

Central Committee Document No 11 stipulated in 1982 that "We generally advocate that rural couples have only one child, but arrangements can be made in a planned way for some of them who ask because of real difficulties, to have a second child upon examination and approval." Second birth allowances were made for less than 5 percent of couples and our birthrate fell from 2.63 in 1981 to 2.43 in 1982.

This policy was kept in effect throughout 1983 and our birthrate fell to 2.10. "Rural second birth allowances were increased from less than 5 percent to about 10 percent" in 1984 and we had 4,550,000 second births, 3,510,000 third or more births, and a birthrate of 2.06.

It was stipulated that rural second birth allowances be again "increased to 20 percent" in 1985 and the number of our second births increased to 5,570,000, we had 3,640,000 third or more births, and our birthrate rose to 2.19.

Rural second birth allowances for families with only a daughter and no son were again increased to more than 50 percent in 1986 and the number of our second births reached 6,880,000, we had 3,780,000 third or more births, and our birthrate rose to 2.30.

Not including minority nationalities, we had widespread second births in 1987 in 5 provinces and autonomous regions, such as Guangdong, and counties in mountain and frontier areas in provinces, such as Sichuan. Allowances were made for families with only a daughter and no son to have second births after an interval of several years in 14 provinces and autonomous regions. The policy of only one child per couple was generally carried out in the 3 directly administered municipalities of Beijing, Tianjin, and Shanghai (not counting suburban counties) and in 6 provinces, such as Sichuan. The number of our second births reached a high of 7,800,000, we had 4,370,000 third or more births, and our birthrate reached a high of 2.50 in 1987.

This shows a clear cause and effect relationship between reductions or increases in our second birth allowances and falls or rises in our birthrate.

III. The Key Contents of China's Population Policy

The basic principles and key contents of China's population policy should be as follows:

A. The size of our population must be strictly controlled. Our birth policy of "vigorously advocating only one

child per couple, strictly controlling the number of second births, and firmly stopping third births" must continue to be firmly and conscientiously carried out for a long time to come.

B. The character of our population must be vigorously improved. This includes its physical, cultural, and moral character. Thus, we must scientifically improve our people's nutritional level, actively develop our medical, health, cultural, and educational facilities, and begin to teach socialist morality. We must now regard improving the production skills of all of our workers (our rural workforce in particular) as the point at which to make a breakthrough in improving the character of our population. Thus, we must conscientiously improve our short-term training in all special applied skills, expand our vocational training from urban to rural areas, and gradually make vocational training an integral part of our educational system.

C. The structure of our population, including its age, urban, and regional structures, must be gradually readjusted. We must vigorously develop our rural commodity economy, speed up the specialized division of labor and management scale of our agriculture, encourage and guide the growth of our cooperative and collective economies, and replace our concept and relationship of dependence on social organizations to dependence on our patriarchal clans. Based on this, we must gradually establish old age social security and social service facilities. Since China is short of resources, we should avoid as much as possible the method of raising our birthrate to reduce the percentage of our aged population in dealing with our ageing problem. Instead, we should look for ways to counteract the necessary social cost of maintaining our elderly people by developing our economy and improving our education.

IV. Major Ways To Control the Size of China's Population

The ultimate aim of our population policy is to change and modify individual behavior. In order to enable our population policy and plans to be fully and effectively carried out, government involvement is both unavoidable and essential.

A. We should use diversified means of propaganda and the media to constantly spread propaganda among the masses on the party and government's population policy. We should arouse a sense of crisis and responsibility to spur couples of childbearing age to lower their expectations on having more children and alleviate and reduce their resistance to and conflicting behavior about China's population policy. Moreover, we must **publicize our policies and laws and clarify our regulations on rewards and penalties.** We must scientifically formulate a strategy of guidance and control based on the particular conditions in each region, use propaganda to ensure that everyone knows the benefits and costs of all births, and establish a new concept that "having less and healthier

children is the way to get rich, while having more children recklessly will lead to endless troubles." In addition, we must use the media to spread knowledge about birth control and eugenics. China's many years of family planning work have shown that widespread propaganda and education can counteract to a certain extent our cultural weaknesses and lower our birthrate by postponing our marriageable age, raising our contraception rate, and giving us a birth control initiative.

B. We should manage our family planning work better, clarify the duties of our family planning workers, and conscientiously settle the real problems of our family planning cadres. In order to stabilize and replenish our ranks of family planning cadres, we must speed up the coordination of our family planning organizations with our rural administrative and production organizations, mobilize our social organizations and forces to cooperate in carrying out family planning work, and make the quality of family planning work our criterion for examining and assessing the achievements of our family planning organizations and cadres at all levels.

C. We must continue to take various steps to reward couples who have only one child and make comprehensive use of strict penalties against those who do not practice family planning. We can link whether family planning is practiced in rural areas to the most crucial interests of the peasants. China should consult the experiences of many countries and perfect a tax system that includes a population control tax. In summary, we must use the effects of various examples to induce peasants to voluntarily choose state-guided family planning and make them understand that only by practicing family planning will they have the most opportunities, the least risks, and the highest incomes.

D. We should actively organize our scientists and technicians to tackle the key problem of developing diversified, long-lasting, inexpensive, safe, and easy-to-use contraceptives in line with China's distinct characteristics of having a vast rural population that is widely dispersed and culturally backward, poor transport facilities, and a shortage of medical facilities. Moreover, we should provide patient and considerate diversified scientific contraceptive services to our vast numbers of couples of childbearing age.

AGRICULTURE

Analysis of Trends in Agricultural Production, Prices, Costs

40060458 Beijing JINGJI WENTI [PROBLEMS OF AGRICULTURAL ECONOMY] in Chinese
No 3, 23 Mar 89 pp 32-40

[Article by the Agricultural Product Price Study Group of the Chinese Academy of Agricultural Sciences' Institute of Agricultural Economics: "The Evolution and Developmental Trend of China's Agricultural Product Prices and Costs"]

[Text] A decade of rural reform brought to China's farming industry a period of rapid growth at first followed by

stagnation in recent years. Many believe that the increase in production before 1984 was the result of policy adjustments and one of the main reasons for the stagnation subsequent to 1985 has been the soaring prices of agricultural means of production, which have turned the price parities between industrial and agricultural goods against the latter group, resulting in a "price parity regression." A scientific evaluation of these changes during China's rural reform can be invaluable in helping us to determine the objectives, policies, measures, and implementation procedures of thorough reform.

I. The Evolution of Agricultural Production, Prices, Costs, and Income Since Rural Reform

A survey of the production cost of agricultural products conducted by the Ministry of Agriculture's Cooperative Economic Management and Administrative Station shows that output of the major crops increased significantly between 1980 and 1987. Comparing the mean values for the periods 1980-1982 and 1985-1987, the per unit area yield of cotton has increased the fastest, at 8.7 percent per year. Among the grain crops, the per unit area yield of rice has increased 4.6 percent a year, twice the rate of wheat and corn. The two oil crops have increased about 2.4 percent a year. The per unit area crop yield fluctuates from year to year, but noticeably, in 1985, the per unit area yield of almost all crops fell. This fluctuation is a nationwide phenomenon.

On the whole, agricultural product prices are rising, and the procurement price of grain in particular has risen more than the others. Comparing the mean values for the periods 1980-1982 and 1985-1987, the prices of wheat, rice, and corn have increased 5.3 percent, 7.8 percent, and 6.4 percent per year, respectively, and the price of soybean has increased 5.2 percent. By comparison, the price of cotton has increased 1.3 percent a year, the price of rape has increased 3 percent a year, and that of peanuts, which has a relatively large market share, has increased 6.3 percent annually. One interesting thing about the change in agricultural product prices is that, if state procurement makes up a relatively large percentage of total sales, as is the case with wheat, rice, and rape, the price increase tends to be steadier, whereas the prices of products more susceptible to market conditions, such as corn and peanuts, tend to be unstable. The fluctuation in cotton price is closely linked to policy adjustments.

Compared to the base period, the material cost per mu of all crops has increased fairly significantly. The lowest annual rate of increase is 3.5 percent (soybean) and the highest is 8.6 percent (cotton.) On the other hand, labor utilization per mu has decreased sharply. The highest annual rate of labor reduction is -12.3 percent for rape, and the lowest is -7.5 percent for cotton. Over the same period, cost of material per hundred jin of the main products has also increased, but the average increase is below the rate of price increase. The cost of material has risen the fastest for peanut, at an annual rate of 6.9 percent; the cost of material has fallen somewhat for

cotton. Because of the significant decrease in labor input, which balances out the increase in wages, labor cost per hundred jin of the main products, except for peanuts, has decreased. Comparing the mean values in the former 3-year period and the latter 3-year period, the total production cost per hundred jin of the main products has been steady, with no significant increase; however, the downward trend has ended and an upward trend has taken over. What determines the trend of per unit cost of production of the main products is primarily the change in the cost of materials. Comparing 1987 to 1985, material cost increased 12.8 percent in the production of wheat, 23.9 percent for rice, 27.7 percent for corn, 8.4 percent for soybeans, 0.9 percent for cotton, 8.3 percent for rape, and 10.3 percent for peanuts. Although labor cost is still decreasing, because of the large increase in the cost of materials, total production cost per hundred jin of the main products is rising despite the earlier decline.

Although a survey of the production cost shows that material costs have gone up because the price of agricultural productive resources has soared since 1985, material input into the production of many crops not only has not increased, it has actually decreased in recent years. For example, based on State Statistics Bureau information, the price of a standard ton of chemical fertilizer was 84.5 percent higher in 1987 than in 1980. Over the same period, fertilizer expenditure per mu of wheat increased only 38 percent, rice increased 51 percent, and corn increased 48 percent—the increase in expenditure is less than the increase in fertilizer cost. These figures indicate that the rise in agricultural material costs since 1985 is attributed basically to the increase in the price of productive resources; the amount of input has not increased by much. Because the per unit area yield and the procurement price have increased at the same time, real income per mu has increased significantly over the same period. Compared with the base period, the per mu income has risen the most for rice, 13.3 percent per year, and the least for rape, 5.9 percent a year. In 1985, however, unlike the trend of per unit area yield, there was no significant decline in per mu real income for all crops except cotton, but the agricultural sector was stagnant.

For most crops, the net output value per mu increased even faster than real income per mu. The survey shows that the increase in net output value per mu of grain crops is comparable to that of the cash crops, and wheat, which has the lowest rate of increase in output, even managed a 9.4-percent increase in per mu net output value. In comparison, the oil crops turned out to have a lower rate of increase in per mu net output value: 6.5 percent (rape) and 9 percent (peanuts).

Because of the significant decrease in labor input and the increase in output, the net output value per standard-work day has doubled over the period. The lowest annual rate of increase is 17.6 percent (peanuts) and the highest is 28.5 percent (rice). Although the survey of production costs shows that the net output value of a standard

workday for peasants who grow crops is fairly high, possibly even higher than those who do industrial work, the peasants' lack of enthusiasm for farm work is a universal problem nationwide. This forces us to question seriously whether, as an indicator, the net output value per worker reflects accurately the peasants' income level. The net output value per workday may have been overestimated in the survey for the following reasons: 1) Characteristically, unlike industrial production, agricultural work is seasonal, the small scale of agricultural operation also limits the amount of labor input, and the number of days a worker actually works on agricultural production is far less than what nature permits, and these naturally require that each workday's labor input be more productive. 2) The marginal productivity of input generally decreases at an increasing rate in agricultural production. As the amount of labor input increases, the marginal product decreases sharply for each additional unit of labor input. But in computing production cost, the net output value per workday is based on the average return of labor, and this tends to hide the very low marginal product when labor input is very high. As the opportunity cost of labor rises, the peasants' reduction of labor input is a rational adjustment. 3) The utility value of land is not reflected in the cost of agricultural production, therefore, the net output value actually includes the value attributable to another key productive element, and so the estimate of the return on labor input is inaccurate. 4) As for the peasants, besides spending a part of their income on daily consumption, they also need money for expanded reproduction and for various kinds of taxation and retention, and so on. Despite the rapid increase in the net output value per mu of crop, and although the income level of the peasants has risen substantially since reform, because of the scarcity of agricultural resources, there is little chance of increasing the peasants' income from farm sources much further. In view of China's situation, it is obviously impossible to try to raise the procurement prices of agricultural products continuously as a way to increase peasants' income, and the restriction on resource reallocation imposed by the property rights system makes it unlikely that the peasants can increase their income by increasing the scale of operation.

II. The Input-Output Relationship in Agricultural Production

The input-output ratio is the basic factor determining the production cost of agricultural products. Not only is the quantitative relationship between input and output the basis for determining production cost, but more important, as peasants gain the right to make management decisions, the technical relationship between input and output is an important parameter in their decisions about the amount and the direction of input. We must first understand the peasants' behavior before we try to evaluate the evolution of the production, costs, and income of crops.

1. The production functions of crops. Agricultural production functions generally reflect the technical relations in

agricultural production, but, on top of this, we can make an assumption about the peasants' management behavior and perform some statistical tests based on these functions. Our estimation of the agricultural production functions are based on data gathered by the Ministry of Agriculture's Management and Administration Station in the 1983-1987 survey of production costs; our production functions are modeled after the Cobb-Douglas production function.¹ In the equations, the variables are: planting area (A), labor input (L), fertilizer (F), other

direct production expenses (D), and indirect production expenses (I); in addition, regional quasi-variables are added to some equations. The cost of fertilizers and other direct production expenses have been converted to numerical indices based on estimated price indices to eliminate the effect of price changes. In solving the regression equations, we also want to test the assumption that the peasants want to optimize the input of fertilizers and other direct production expenses. The results of our estimation are shown in Table 1.

Table 1. Estimations of the Crop Production Functions

Crop	Constants	A	L	F	D	I	Quasi-Variable	R ²
Wheat	3.897 (35.7)	.196 (4.06)	.201 (5.45)	.381 (11.01)	.190 (5.69)	.111 (3.66)		.97
Rice	5.645 (52.1)	.557 (16.1)	.095 (3.14)	.129 (37.6)	.143 (27.7)	.054 (3.35)		.94
Corn	5.149 (69.1)	.338 (8.7)		.232 (7.65)	.301 (10.1)	.092 (3.68)	.082 (2.46)	.97
Soybean	4.194 (21.2)	.611 (8.86)	.260 (3.07)	.007 (0.43)	.161 (3.38)		.228 (3.23)	.92
Cotton	2.583 (6.08)	.118 (0.76)	.176 (14.1)	.332 (3.43)	.151 (2.34)	.191 (4.31)		.88
Rape	4.446 (21.7)	.533 (7.06)	.158 (2.27)	.101 (3.31)	.068 (1.37)	.136 (3.19)	-.225 (-3.41)	.90
Peanut	4.44	.434 (14.8)	.082 (3.83)	.122 (0.90)	.206 (1.72)		.281	.93 (4.31)

* Bracketed numbers are the values of the coefficients, and R² is the multiple regression coefficient after adjusting the number of degrees of freedom.

Regressions of the production functions show that among the key productive elements, crop area obviously is the most important factor in determining total production. For all crops, except cotton, the coefficients of output elasticity with respect to crop area are statistically very significant; in particular, the coefficients of output elasticity with respect to crop area for rice, soybeans, and rape are all greater than 0.5. This indicates that, as long as the amount of land cannot be increased, there is limited potential for increasing agricultural production. On the whole, labor input has little effect on crop yield. Even for wheat, soybean, and rape, which are crops with significant labor input coefficients, labor input has already exceeded the economic limit. This indicates that, so far, the peasants have not given sufficient consideration to the opportunity cost of labor when making decisions.

The large increase in the use of fertilizers is one of the key factors contributing to development in agricultural production in recent years. This is proved by the production functions. In the set of seven equations, except

for soybean and peanuts, the fertilizer input coefficients are significant in all equations. As far as grain is concerned, increasing the amount of fertilizer can still increase the output of wheat and corn fairly substantially, but the use of fertilizer on rice has already reached the reasonable economic limit; further increasing the amount of fertilizer will neither increase crop yield by much nor generate more income for the peasants. This condition will inevitably undermine the effectiveness of our grain development strategy, which relies heavily on chemical fertilizers as a means to increase output.

Other direct and indirect production expenses also have a fairly significant effect on crop yield. Relatively speaking, at present, the input of these elements is below the optimal level. Increasing their input can very much help us achieve the goal of increased production.

In the set of seven regression equations, only the production coefficients of rice passed the hypothetical optimization behavior test, but this does not mean that the peasants have no business sense. Data collected in the

production cost survey reflect that the peasants have drastically reduced the amount of labor input, and material input has not yet been raised to the proper level, primarily because there is a shortage. These changes, in fact, reflect the peasants' optimization behavior.

2. The price elasticity of crop production and the price elasticity of demand for agricultural inputs. Although the production functions indicate that there is still a wide gap between how the peasants are operating and how they should operate to maximize agricultural net income, if we consider the direction of China's rural economic reform, it will be more meaningful if we assume optimization among the peasants when we analyze the effect of prices on agricultural production.

Because of the technical nature of agricultural inputs, we assume that in the short term the peasants can adjust only the amount of fertilizers they use, and in the intermediate term, they can adjust the input of other direct productive inputs. On this premise, we use the estimated agricultural production functions to compute the coefficients of elasticity of production with respect to changes in product and input prices.

The result of our computation shows that production of the main agricultural products is not very responsive to product price adjustments. In the short run, the production of wheat is most sensitive to price changes, with an elasticity coefficient of 0.6. This means that if we can satisfy peasants' demand for fertilizers at the existing price level and keep the amount of other inputs unchanged, a 1-percent increase in the price of wheat can increase output by 0.6 percent. As for the other crops, a price increase is not likely to stimulate production in the short run. From the point of midterm development, the key productive elements can be reallocated more readily and, therefore, a price change will have a greater effect on production. But the elasticity coefficients show that, of the seven crops, only wheat and corn respond more readily to price changes—their coefficients are 1.3 and 1.1, respectively. The production of the other crops is fairly inelastic. Looking at the actual conditions in China today, the shortage of productive resources, such as chemical fertilizers, makes the actual elasticity coefficients even lower than what we have calculated. Thus, we should not expect the price adjustment policy to be very effective in the short term.

The coefficient of elasticity of crop production with respect to the price of inputs is equal in absolute value to its elasticity coefficient with respect to product price, but they carry opposite signs. This means that if the increase in product prices equals the increase in input prices, output will remain the same. A more universal conclusion is that, if we want to encourage the peasants to increase production, product prices must increase faster than input prices.

3. The demand for agricultural inputs. The production functions we have estimated can also be used to calculate

the elasticity of demand for productive resources with respect to price. Our computation shows that the demand for fertilizers and other direct inputs is elastic. The elasticity of demand for fertilizer with respect to its own price is between -1 and -1.9, and the elasticity of demand for other direct inputs with respect to their own prices is between -1.1 and -1.6. The elasticity of demand for these two groups of inputs with respect to product prices is between 1 and 2.3. This means that if the price of productive resources goes up, the peasants' demand for these inputs goes down, but as product prices go up, the peasants may increase their input.

In essence, the demand for productive resources is a derived demand. A change in agricultural product prices necessarily causes the demand for productive resources to change. When the state tries to stimulate production by raising the procurement prices of agricultural products, the demand for productive resources also increases as a result and, if there is a shortage of productive resources, their prices will also increase. In this situation, if we keep prices under control, we will naturally have to replace market allocation with administrative allocation. In practice, an inherent problem with this system is that administrative organs often tend to seek short-term results and to protect the interests of the largest interest group with the most social impact, and often this means the allocation is biased. Furthermore, there is always the danger that because the people in the administrative organs in charge of allocation have different interests, they may revise the state's allocation rules on their own, and the actual allocation not only may deviate from society's long-term interests, it may also deviate from the central government's expectation. What the state can do to balance the supply and demand of agricultural inputs is not to control the demand for productive resources but to adjust their supply. This also means increasing productive capacity, providing smooth supply channels, and creating a better environment.

Based on estimates of the agricultural production functions, at today's level of input the marginal productivity of fertilizer is already fairly low. Initial estimates show that the marginal product is 2 kilograms of grain per kilogram of standard fertilizer in the case of wheat and corn, and only 1 kilogram for rice. Based on these figures, today's grain-fertilizer exchange-and-purchase ratio is too low and, from the technical point of view, is not enough to guarantee the amount of output we need. From the economic point of view, however, if the peasants are free to choose between the state and the market, they can satisfy their economic interests and still sell grain to the state if the difference between the parity price and market price of grain is less than the difference between the parity price and market price of fertilizer times the exchange-and-purchase ratio; that is, if the market price of grain minus the state procurement price is less than exchange-and-purchase ratio times (market price of chemical fertilizer minus parity price of chemical fertilizer). Based on 1987 data, the difference between parity and market prices per kilogram of wheat,

rice, and corn is 0.22 yuan, 0.23 yuan, and 0.08 yuan, respectively. If the difference between parity and market prices of fertilizer is 0.2 yuan, the least grain-for-fertilizer exchange ratio for these three kinds of grain should be 1:0.55, 1:1.15, and 1:0.4 respectively. These rates exceed by far the existing ratios. This shows that as the peasants' operating goals become increasingly clear from both the technical and economic points of view, the current grain-for-fertilizer exchange policy is insufficient to entice them to increase output and increase their sales to the state, and the policy may not be effective.

The Developmental Trends of Crop Production, Costs, and Net Output Value

In our simulation models, the exogenous variables are the rate of change of seeded area, labor input, indirect production expenses, the price of fertilizer and other direct production expenses (price indices), and agricultural technological improvements. If we look at China's actual situation, as the economy continues to grow, more agricultural land certainly will be shifted to nonagricultural use. Bringing barren land under cultivation can, to some extent, slow the loss of farmland, but it cannot make a fundamental difference. The change in the crops' seeded area will be affected by the change in the amount of farmland and the change in the intensity of multiple cropping. Actual conditions in recent years indicate that if agricultural product prices can stimulate the peasants sufficiently, we can still raise the multiple crop indices by a reasonable amount. China's crop seeding area may be stable in the near term, but in longer terms, a reduction of the amount of cultivated land is inevitable. Of the different crops, we can possibly still increase the crop areas of cotton and the oil crops if prices are good, because they require relatively little land and their demand is growing fairly rapidly.

Because the return of labor input in agricultural production is fairly low, and because of more nonagricultural employment opportunities, the physical input of active labor into agricultural production will continue to decline. But since there has been no significant technological breakthrough in agricultural production, the rate of labor input will be no less than that of a few years ago. The peasants can hope to maintain a 5-to-8 percent rate of increase in income, much slower than that during the early days of reform.

The increase in indirect production expenses is affected by the change in the amount of fixed assets in stock and by the change in the rate of investment. At present, the

lack of newly acquired long-term key productive elements has already become a serious constraint for agricultural development. Future changes will depend on whether we can implement some investment and allocation policies at the macroeconomic level to benefit agriculture, as well as an investment policy at the microeconomic level to encourage the peasants to invest. Here, both optimistic and pessimistic assumptions have been made in our estimations, and similar assumptions have also been made about technological improvements.

Because the prices of agricultural products and inputs are controlled by the state in the midterm and near term, and because studies so far have not dealt with the demand for agricultural products and the supply of productive resources, we have treated prices as a policy variable in our simulation analysis.

In the short-term simulation, we have assumed a 5-percent increase in agricultural tax and a 3-percent increase in agricultural products for the peasant households' own consumption. In the midterm simulation, we have raised both figures to 10 percent.

To reflect the possibility of change in the peasants' operating behavior, our simulation analysis assumes that the peasants want to maximize net agricultural income. We have set up four situations each in the short-term and midterm simulations. In the short-term simulation, the first model represents actual developments in recent years and is characterized by soaring agricultural product prices and input prices and a slower rate of increase in inputs. The second model simulates strict control of product and input prices by the state. The third model simulates the state's vigorous support of agriculture by increasing the amount of inputs significantly but at the same time keeping the prices of agricultural products fairly low. The fourth model simulates the loss of control over input prices.

In contrast to the short-term analysis, besides the input of fertilizer, the midterm analysis assumes that other direct productive expenses are also variable factors. The first model of the midterm analysis is a relatively optimistic forecast of future development, and the fourth model is a relatively pessimistic view. The second model simulates the situation where, because of the shortage in key productive elements, prices are raised substantially to stimulate the peasants' productive zeal. The third model simulates the state's vigorous support in terms of long-term inputs. The result of our simulation calculation is shown in Table 2.

Table 2. Simulation of the Rates of Increase in Agricultural Production, Costs, and the Peasants' Agricultural Income

Item	Short Term		Long Term					
Labor input	-5	-5	-2	-10	-20	-20	-10	-10
Other direct production expenses	4	4	7	4				
Indirect production expenses	4	4	8	4	25	15	35	15
Payment for labor per workday	10	10	10	10	40	40	35	35

Table 2. Simulation of the Rates of Increase in Agricultural Production, Costs, and the Peasants' Agricultural Income

Item	Short Term				Long Term			
Price of fertilizer	9	5	9	12	20	26	15	20
Price of direct production expenses	5	3	5	8	16	20	12	15
Rate of technological improvement	0	0	1	0	4	2	4	1
Product prices:								
Grain	9	7	7	9	30	42	20	25
Cotton	10	6	6	10	20	35	13	15
Oil crops	7	5	5	7	25	40	16	18
Planting area:								
Grain	0	0	1	0	0	0	0	-2
Cotton	8	3	6	8	6	6	8	4
Oil crops	2	2	2	2	4	4	6	3
Wheat:								
Output	0.2	1.4	3.7	-3.1	18.1	17.2	20.7	7.7
Output value	0.6	2.2	3.8	-6.2	23.9	26.0	24.6	10.0
Cost	6.7	4.9	5.9	7.9	15.4	21.3	11.8	20.0
Rice:								
Output	0.3	0.6	2.9	-0.7	8.1	6.5	8.7	1.9
Output value	2.5	2.1	4.6	0.1	18.0	21.3	14.0	7.3
Cost	6.4	5.3	6.3	5.5	19.5	25.1	17.7	22.8
Corn:								
Output	2.0	2.6	4.9	1.2	27.3	26.8	23.2	11.4
Output value	4.5	4.6	6.8	2.7	39.8	43.9	30.6	18.1
Cost	5.1	3.8	4.7	3.8	8.3	13.1	9.4	17.4
Soybean:								
Output	-0.7	-0.7	2.2	-2.1	0.0	-1.2	2.8	-1.0
Output value	2.4	1.5	4.1	0.0	10.7	15.2	8.7	6.8
Cost	7.1	6.3	6.9	5.4	23.7	28.1	21.7	25.2
Cotton:								
Output	2.5	2.5	4.4	-0.3	11.1	11.1	17.3	1.7
Output value	11.8	7.9	9.2	8.5	28.1	42.3	27.1	14.9
Cost	4.3	3.3	4.5	4.0	12.2	16.6	9.2	19.0
Rape:								
Output	1.0	1.2	3.2	-0.3	8.1	5.6	12.5	3.4
Output value	5.5	4.3	6.1	3.6	25.4	34.6	23.1	15.4
Cost	5.2	4.3	5.2	3.6	16.3	22.7	13.6	19.3
Peanuts:								
Output	1.2	1.4	3.0	0.3	9.0	9.8	10.0	2.6
Output value	4.1	3.3	4.2	1.9	21.5	31.4	17.1	9.8
Cost	5.6	4.4	6.3	4.9	17.0	23.9	15.7	19.9
Total demand for fertilizer ¹	0.7	3.2	1.4	-4.1	24	29	20	9
Total demand for direct inputs ¹					27	34	22	14
Rate of increase in grain ²	0.7	1.2	3.5	-0.9	15	13	15	5
Rate of increase in oil crops ²	1.1	1.3	3.1	0.0	9	9	11	3

Note:

1. Each is weighted by the amount of the respective crop's input as a percentage of the total input.
2. Each is weighted by the respective crop's output as a percentage of the total output.

Our simulation calculation shows that in the short term the outlook for any increase in China's agricultural production is not optimistic. In the first model, which simulates present conditions, grain production has increased only 0.7 percent, cotton has increased 2.5 percent, and the oil crops have increased 1.1 percent, far less than the increase needed to satisfy the increase in demand. The second model shows that, if we can keep the price increase in productive resources under control, even if the increase in the price of agricultural products is fairly small, the peasants may still increase the input of fertilizers. The question is whether the supply of fertilizer can satisfy the increased demand, whether fertilizers can be guaranteed at a low price, and how much this scheme will cost the state. Another choice is for the state to increase agricultural support, including vigorous development of basic agricultural construction and infrastructure and promotion of technological improvements. This is the third model in our short-term simulation. In this scheme, the increase in agricultural product prices is fairly small, but the increase in the prices of productive resources is substantial; yet, it turns out that output increases by the largest amount in this model and the increase in demand for fertilizer is less than in the second model. On the surface, this seems to be a fairly ideal situation. But in practice, it is much more difficult to put the third model to work than the second model, because the former would require a complete overhaul of the rural organization and system. In addition, although this model does not require as much government subsidy for fertilizer production, more money will be needed for basic agricultural construction investments, scientific research, and the promotion of technology. The fourth model simulates a pessimistic future. Because the price of agricultural productive resources is out of control and there is a lack of long-term investment, agricultural production may continue to slump.

In our simulation calculation, agricultural production cost has risen fairly significantly in all four models; the extent varies only slightly among the different models and products. Costs have increased about 4-7 percent for the grain crops as a group, 3-4 percent for cotton, and 4-6 percent for the oil crops. These rates are generally 2-3 percent lower than the rate of price increases. For some crops, however, costs have increased almost as much or even more than prices in some models. For example, soybeans in the third model and the two oil crops in the first and third models. Thus, the ability of higher costs to drive up product prices is something we cannot ignore.

In all four models, the rates of increase in net output value of the four grain crops range from the high of 6.8 percent (corn in the third model) to the low of -6.2 percent (wheat in the fourth model); the more probable range is between 2 and 4 percent. In comparison, the peasants may have a better chance of increasing their income by growing cash crops: it is probable that the output value of cotton can increase 7-9 percent, and the oil crops by 4-6 percent. This kind of comparison of the

difference in profit will eventually lead the peasants to shift their input of key productive elements.

In a situation where there is little hope for increasing output in the near term even though demand is increasing rapidly, agricultural product prices will be pulled up by the excess demand. We can expect to see the supply of agricultural products in this country become increasingly tight. It is possible that prices will soar or there can be widespread rationing because of shortages. Since the state wants to tighten control over agricultural product prices, the widening gap between market prices and state-set prices will make it very difficult to fulfill the procurement quotas.

Midterm production capability is affected to an even greater extent by the choice of policies and is more pliable. At the same time, the peasants have more opportunities to optimize allocation of key productive elements at the microeconomic level. Our simulation calculation of the four models indicates that if the price level of agricultural products is significantly high, or if the state implements a policy to support agricultural development, agricultural production can maintain its upward trend; otherwise, long-term stagnation is possible.

In the first model of the midterm simulation, the rate of increase in output of grain, cotton, and the oil crops is 15 percent, 11 percent, and 9 percent, respectively. Because grain prices are increasing faster than cotton and oil crop prices, the net output value of the grain crops in general is rising as fast as that of the cash crops. The increase in production cost is fairly substantial: around 15-20 percent for rice and wheat, 16-18 percent for the oil crops, and 12 percent for cotton. To satisfy these conditions, the supply of agricultural productive resources must increase by more than 25 percent.

The second model considers the situation of chronic deficiency in agricultural inputs. With relatively little increase in direct production expenses and little agricultural technological improvement, to realize our output objective, we must rely on raising agricultural product prices substantially to entice the peasants to increase current inputs. In this model, although the price of grain is 12 percent higher and the prices of cotton and oil crops are 15 percent higher than in the first model, the increase in grain and cotton output approaches the level in the first model, but the increase in oil crop production remains as low as 1 percent or so. This model gives the agricultural productive resources a more substantial price increase, because it anticipates the sharp increase in prices as the demand for productive resources surges. Despite this provision, the demand for fertilizer is still 5 percent higher than in the first model, and the demand for other direct inputs is 7 percent higher. The relatively substantial increase in the price of productive resources causes the production cost of the various crops to be 4-6 percent higher than in the first model; however, the

substantial increase in product prices still ensures the increase in net output value.

The third model assumes a fairly substantial increase in the input of indirect production expenses and substantial technological improvements as well as a slower rate of reduction in active labor input. These, on the whole, reflect a policy of support for long-term agricultural development and measures of administrative control. The result of our computation indicates that even if prices are fairly low, this kind of policy can still satisfy the goal of increasing total output, but because the price of agricultural products is low, the net increase in output value of the crops will be lower than in the first two schemes. In this model, because of the small increase in labor income and the price productive resources, there is little increase in production cost; however, this does not mean that the social cost of these products is low.

The fourth model reflects a fairly pessimistic outlook. Because of chronic inadequate input and low product prices, the peasants reduce their inputs and this in turn slows the rate of agricultural development and the rate of increase in farm income. Under the circumstances, production cost may increase faster than product prices.

The table above shows that we have not assumed a high rate of technological improvement in our midterm simulation, but it plays an important role in promoting the increase in output. Other things being equal, if we assume the rate of technological improvement to be zero, the resulting increase in output of grain, cotton, and oil will be less than in the first model by 7.8 percent, 8.1 percent, and 5.5 percent, respectively, and will be less than the second model by 4 percent, 4.1 percent, and 2.8 percent, respectively. This kind of "multiplier effect" of technological improvement is the result of existing optimization behavior. Technological improvements not only increase output directly but also increase the productivity of the peasants' additional inputs, and thereby encourage the peasants to greatly increase the amount of inputs.

III. Some Assessments and Countermeasures

Summing up the results of our simulation analysis, we can make the following conclusions about the development of China's crop production in the near term (1990) and midterm (1995):

1. Even if we can guarantee to some extent the supply of agricultural means of production, because of chronic input deficiency in the past and the limitations imposed by the rural organization and system, China's agricultural production is not likely to increase significantly in the near term. The output of grain is expected to increase 0-1.5 percent a year. There is more room for adjustments in the production of cotton and oil crops, and the rate of increase in their production will depend on the state's choice of policies. But more rapid increase in the production of cash crops can be achieved only at the expense of slower increase in grain production. In the near term,

guaranteed supply of agricultural means of production is the determining factor in achieving our growth objective.

2. In agriculture, long-term development is, to a large extent, determined by the choice of agricultural policies in the near term. If, starting today, the state should implement a comprehensive policy to support agricultural development, it is still possible to achieve a 1.5-2 percent or even slightly higher rate of increase in the production of grain, or even to increase the production of grain, cotton, and oil at the same time. Conversely, agriculture can face chronic stagnation.

3. For some time to come, the slow rate of increase in grain supply relative to the increase in demand will prevail (as long as the inverse relationship between procurement and sales price is maintained), and the market price of grain will increase fairly rapidly. Under the circumstances, the state is faced with the alternative of either raising the procurement prices of agricultural products accordingly or increasing imports significantly. As a result, both the state's payment of price subsidy for agricultural products and the agricultural trade deficit may increase.

4. The production cost of the high energy-consumption agricultural productive resources will continue to increase in the future, and the marginal product of additional agricultural inputs will decline; as a result, the production cost of agricultural products will increase at an increasing rate in the future.

5. Even if agricultural product prices increase fairly significantly, limited by the scale of operation, the rate of increase in peasants' farm income will remain on the low side. It is possible that the income disparity between industry and agriculture will grow even bigger.

With this background, we can consider the following short-term and midterm countermeasures: In the short run, the state must raise the contractual procurement prices to a reasonable level in order to remedy the reduction in the peasants' real income caused by inflation and to keep the peasants interested in agriculture and prevent further declines in agricultural production. In order to increase agricultural output in the near term, one basic condition is to guarantee the supply of agricultural productive resources. At present, the "three link" exchange-and-purchase standard is insufficient to attract the peasants and therefore is not very effective. In the near term, we can raise the exchange-and-purchase standard as an interim solution. The state's primary duty should be to take steps to rectify improper management behavior of state-run and other business organizations and to facilitate conversion from the system of administrative allocation to the system of market allocation as soon as possible. In the near term, the state should take advantage of international market conditions and be flexible about taking the option of importing some

agricultural products and agricultural means of production in order to balance supply and demand in the domestic market.

Vigorously promoting technological improvement in the agricultural sector is the basic way to achieve the mid-term goals for agricultural development. This means we have to support research in agricultural science, popularize technology, develop rural education, and improve the quality of the peasants, and so on. For this reason, the state should also renovate rural organization and system and install rural infrastructure. Through in-depth reform, the state should reduce the amount of financial subsidy for urban consumers and enterprises that process agricultural products and use the money instead to support agriculture-related industries and maintain a fairly high rate of growth in those industries. We cannot rely on raising the prices of agricultural products continuously as the way to increase peasants' income. The state should proceed to formulate a property rights system, taxation system, and rural employment and social security systems to facilitate redistribution of agricultural key productive elements and guide the peasants to achieve greater economies of scale spontaneously and limit the effect of cost increases on product prices. From the standpoint of long-term development, a crucial part of China's agricultural development strategy should be to take advantage of the opportunities opened up by international trade and adjust the rural industrial structure to give play to our comparative advantages and establish a highly efficient agricultural production system.

Footnote

1. As far as the Cobb-Douglas production function is concerned, the determination of whether the amount of input is reasonable is based on whether the expenditure on that input as a percentage of total income is larger or smaller than its coefficient in the production function. If it is larger, input is excessive; if it is smaller, input is insufficient.

Peasants Complain About Fertilizer Price Hikes
HK1105141289 Hong Kong ZHONGGUO TONGXUN
SHE in Chinese 0841 GMT 9 May 89

[Report: "Peasants Complain About the Increasing Prices of Chemical Fertilizers"]

[Text] Beijing, 9 May (ZHONGGUO TONGXUN SHE)—Since the government implemented the policy of special operation of chemical fertilizers, problems have cropped up in some localities in the sales of chemical fertilizers. The peasants of Shaanxi Province have poured out endless grievances against the soaring prices of chemical fertilizers.

Take urea for example: The uniform retail price fixed by provincial authorities is 1,126 yuan per ton, an increase of more than 100 percent over the previous year and higher than last year's highest market price.

The price of chemical fertilizer in Shaanxi is also higher than in the neighboring provinces and this extent of price increase is rare across the country. As the peasants cannot afford to buy fertilizers, sales of chemical fertilizers have dropped and there is a huge stock. This abnormal phenomenon of overstock has appeared in many factories as well as supply and marketing cooperatives. Shaanxi now has a stock of more than 500,000 tons of chemical fertilizers.

There are many reasons for the price increases in chemical fertilizers. Shaanxi does not have large chemical fertilizer factories and the amount of chemical fertilizers allocated by the state is limited. Although there is demand for 2.7 million tons of chemical fertilizers this year, the province can supply only 2.27 million tons. For this reason, the province had to import chemical fertilizers or purchase them from other provinces. As the prices of chemical fertilizers sold by the manufacturers have risen by a wide margin in the neighboring provinces, retail prices have also increased correspondingly. According to the manufacturers, this is the result of the price hikes of raw materials.

In the face of the factors in price increases, both manufacturers and sellers have complained about their difficulties. Production and marketing units have tried to raise prices at each level in an attempt to extricate themselves from the predicament. Eventually, they shift the crisis and burden onto the peasants, an act that is bound to dampen the peasants' enthusiasm for farming.

New Cotton, Grain Production Bases To Be Built
OW2505202289 Beijing XINHUA in English
0040 GMT 16 May 89

[Text] Wuhan, May 16 (XINHUA)—China will spend 360 million yuan (about 10 million U.S. dollars) in the next three years to build cotton and grain production bases in Hubei Province.

A provincial government official said 150 projects, such as improving mediocre and lower-yield farmland and cultivating fine crop varieties, will be completed in the next three years.

They will provide the state with an additional 1.13 billion kg of grain, 100 million kg of cotton and 90 million kg of edible oil.

Agricultural Loans for Heilongjiang
40060609e Harbin HEILONGJIANG RIBAO in
Chinese 7 May 89 p 1

[Summary] As of 20 April, agricultural banks and credit cooperatives in Heilongjiang Province provided 1,010,000,000 yuan in agricultural loans for spring planting, an increase of 40 million yuan over the same period in 1988.

Heilongjiang Beet Area

40060609d Harbin HEILONGJIANG RIBAO in
Chinese 13 May 89 p 1

[Summary] As of 5 May, the contracted area for beets in Heilongjiang Province was 4.5 million mu, accounting for 75 percent of the plan, and a decline of 1.7 million mu from 1988. However, as of 5 May, the province had provided only enough beet seeds for 4 million mu. The beet area has declined because leaders are not implementing policies to increase sugar production; peasants are planting more tobacco; and peasants can earn more planting grain than planting beets.

Dairy Stock Down in Heilongjiang

40060626a Harbin HEILONGJIANG RIBAO in
Chinese 6 May 89 p 2

[Summary] By the end of March, the number of dairy cows in stock in Heilongjiang Province had declined from 470,000 at the beginning of the year to 440,000. The number of dairy cows has decreased because feed prices have risen while the quality of feed has declined; in addition, dairy processing plants are behind in their payments to dairy farmers. At present, milk output provides only 61.5 percent of the dairy industry's capacity.

Yunnan Tea Procurement Prices Up

40060626c Kunming YUNNAN RIBAO in Chinese
3 May 89 p 2

[Summary] At this time in 1988, the procurement price for tea in Yunnan Province was about 1.5 yuan per kilogram, this year the price is 2.5 to 3 yuan.

Zhejiang Issues IOU's to Tea Farmers

40060626e Beijing NONGMIN RIBAO in Chinese
8 May 89 p 1

[Summary] The tea procurement season is starting in Zhejiang Province, but because only half of the procurement funds can be ensured, some tea-producing areas are issuing IOU's or have stopped purchasing tea. Shengxian County needs 37 million yuan to purchase tea, but can only obtain 4 million yuan in loans. Xinchang County needs 20 million yuan to purchase tea, but 90 percent of these funds cannot be obtained. Wuyi County needs 17 million yuan to purchase tea, but the purchasing corporation has only 2 million yuan. This spring Zhejiang expects tea output to reach over 1 million dan, but as of 25 April, only 4,500 dan had been procured.

Minister of Personnel Interviewed on Wages of Intellectuals

40050428 Hong Kong LIAOWANG [OUTLOOK]
OVERSEAS EDITION in Chinese
No 12, 20 Mar 89 pp 7-8

[Article by Ku Mainan 7357 6701 0589: "Minister of Personnel Discusses Respecting Knowledge and Qualified Personnel"]

[Text] Job title reform, wages, and mobility of qualified personnel are hot topics now among China's intellectuals. For this reason intellectuals are following closely the actions of the State Ministry of Personnel which was organized last year because these three areas are one of the sensitive tasks within the range of the Ministry of Personnel's functions.

Zhao Dongwan [6392 2639 1354], the Minister of Personnel, has always stressed "less talk, more action" with regard to work concerning intellectuals and has rarely discussed this with the press. Now, in response to a request from this magazine, Minister Zhao Dongwan allowed us to interview him. He discussed rather comprehensively the progress, overall conceptions and related new ideas about the above-mentioned issues which are of great concern to intellectuals.

Establish a Wage System Which Expresses the Unique Features of State Organizations and Institutions

Since 1966 fourteen measures involving issues of wages for intellectuals have emerged in the country, including such things as making good on the wages of appointees to specialized technological posts; increasing the wage standards for teachers in middle and elementary schools and kindergartens; establishing remuneration for teaching while holding down another job and for teaching beyond one's quota; establishing an income deduction system for after-work medical and health service; awarding position subsidies for specialized technological personnel who accept tasks in key technological projects, etc. Zhao Dongwan said that although there is a limit to the money the state can appropriate, these measures have increased the wage income of the intellectuals concerned to a certain degree and also indicate that the party and government is continuing to work hard to resolve the problems of treatment of intellectuals.

However, in the last three years, the rate of increase of average income in state organizations and institutions in which there are concentrations of intellectuals has been lower relative to other departments. The pay for those who labor with their brains in society is clearly on the low side. Zhao Dongwan summarized the direct causes intensifying these phenomena as: 1) In organizations and institutions, there is very little income apart from wages; 2) While enterprises have universally coupled overall

wages with economic results, organizations and institutions have not established a mechanism for normal wage increases; 3) Wage standards for intellectuals are relatively low.

It is very clear that under the existing wage system, wages of enterprises and organizations and institutions have not yet completely separated. All should be unified by the state. The situations of various classes of personnel among the intellectuals also are not entirely the same. If we are to resolve the issue of wages generally it will be difficult to avoid egalitarianism again and this is bound to create a competition and comparison mentality and no one will be satisfied. Zhao Dongwan discussed the general thinking of the Ministry of Personnel with regard to wages for intellectuals: In the next five years wage relationships will gradually be brought into line through reform of the current wage system and preliminary establishment of different systems of wages and a mechanism for normal wage increases unique to state organizations and institutions. At the same time, we will gradually strengthen relevant laws and regulations, ensure the healthy development of services compensating the brain power and basically resolve the "imbalanced" wage problem by raising a broad range of wages and income for brain workers.

Of the wage system for civil servants in state administrative organizations, Zhao Dongwan said they were giving thought to implementing a pay grade system in which the wage levels would be generally on a par with wage levels for enterprise management personnel. A specific proposal is now being formulated.

When discussing the wage system for institutions, Zhao Dongwan said that in such departments as education, scientific research and health, unique specialized technological job grade wage systems will be established; sensible wage standards will be established to increase the distance between wage grades so that the wages of specialists with outstanding contributions may exceed those of state leaders; the necessary job and position allowances will be established to adapt to some special needs; a system including material and honorary rewards will be established.

With regard to a system for normal wage increases for promotion and a system of cost of living increases, Zhao Dongwan said that wage increase mechanisms for both institutions and state organizations should be established to ensure the systematization and regularization of wage increases.

Zhao Dongwan said that he feels that as far as the varying reactions in society to compensated intellectual service is concerned, as long as it is guided correctly and managed properly, while it can increase service to society the corresponding income increase of the intellectuals will also help mitigate some upside-down phenomena in income for intellectual and physical labor. The state is now progressively strengthening policy and laws and

regulations in this area and will continue to liberalize policy to promote the compensated and organized expansion of intellect.

Zhao Dongwan revealed that, taking into account such factors as increases in the price index, the state will adjust wages for employees of state organizations and institutions (including retired cadres) and will resolve, in a suitable fashion, current glaring problems in wages in such areas as research, education and health.

Establish a Socially Adjusted Regularity Mechanism for the Flux of Qualified Personnel

A survey done by the Ministry of Personnel indicates that since 1984 the average annual mobility rate of specialized technological personnel in research, higher education and large and medium-sized enterprises was 2 percent, far lower than that of the developed and developing countries. Zhao Dongwan pointed out that the fact that it is difficult for qualified personnel to be mobile has created an imbalance in the distribution and demand for qualified personnel so that for a long time China has been in this state: on the one hand there is a severe shortage of qualified personnel and on the other, there is a severe excess and waste of qualified personnel.

Since 1983 the Central Committee of the Chinese Communist Party and the State Council have issued a series of documents actively advocating and promoting sensible mobility of qualified personnel. From top to bottom nationwide various types of mobility service agencies for qualified personnel have been established one after another, many local areas have enacted qualified personnel mobility legislation, pilot projects in the qualified personnel market and socialized service systems have been started in succession, and in a variety of forms local areas have organized intellectual exchanges and opened channels for mobility of qualified personnel. After Zhao Dongwan briefly discussed the progress in mobility of qualified personnel in the past few years he said frankly: the difficulty of mobility of qualified personnel is still a prevalent trend.

Zhao Dongwan briefly analyzed the factors which currently make mobility of intellectuals difficult: the system for managing qualified personnel which is still characterized by unified contracts and unified distribution has not yet been basically reformed; the unit-operated social welfare insurance system has intensified the qualified personnel's dependence on the unit; laws, regulations and systems related to mobility are weak; the traditional ideas which formed under conditions of a commodity economy are still deep-rooted.

The opening up of China's production resources markets and funding markets in succession, the gradual expansion of state-run enterprises' autonomy, and the rapid growth of rural enterprises, locally operated enterprises, private enterprises and the three-way funding [san zi 0005 6327] enterprises, has exposed the obstacles to

engage an in-depth reform in the mobility of qualified personnel and the development of a commodity economy. At the same time, reform of the cadre personnel system, which is the breakthrough point in establishing and implementing a state civil service system and the further reform of the research, education and culture systems, more urgently needs the creation of an environment conducive to mobility of qualified personnel as quickly as possible. As Minister of Personnel, Zhao Dongwan feels keenly the necessity and urgency of establishing a qualified personnel mobility mechanism.

After the Ministry of Personnel was created, it began to research relevant schemes for establishing qualified personnel mobility mechanisms. Zhao Dongwan said that our basic thinking is to establish a completely new system centered on the autonomy of the individual to choose his own employment and the autonomy of the unit to hire people in line with the principle of classification management, gradually improve the corresponding social conditions, truly form a regulatory system based on the market for qualified personnel and a mobility system for qualified personnel which effectively gives full play to the state's overall regulation and control functions. The preliminary ideas are briefly as follows:

- Reform the appointment system for various classes of personnel and implement bi-directional selection. In state agencies, primarily combined with implementing a civil service system, establish an examination and registration system based on the principle of openness, equality and competition and a strict resignation and dismissal system; implement a strict appointment contract system in enterprises and institutions for managerial personnel and specialized technological personnel so that the contract agreement becomes a legal basis for the relationship between the two parties; in line with the principle of self-reliance implement a system of free association of personnel, defining autonomously the manner of employment and means of enforcement.
- Establish a social security system to create the conditions for agencies, enterprises, institutions and social organizations to select the best candidates and for individuals to choose their jobs. First of all, establish a sound unemployment insurance system, gradually establish an unemployment insurance system for institutional management personnel and specialized technological personnel which guarantees that the conditions exist in society for resolving the life security issues of various types of personnel during their unemployment; next, the existing retirement system should be reformed to establish retirement insurance; and a medical insurance system should be established.
- Establish a pluralistic qualified personnel mobility service system to open channels for supply and demand of qualified personnel. Comprehensive qualified personnel databases established by the qualified personnel exchange centers of personnel departments

at various levels will issue information on qualified personnel supply and demand, operate personnel exchange offices, and manage personnel files of personnel changing jobs; establish corresponding arbitration organizations in personnel departments to mediate controversies and disputes that occur in the process of personnel mobility.

- Through planning, economic policy and legal means strengthen state regulation and control of the market for qualified personnel. Primarily focused on guiding the direction and distribution of qualified personnel; maintaining the regional balance of qualified personnel, ensuring the demand for qualified personnel by key state projects and research projects; controlling the appropriate volume and rate of flow and reducing social repercussions.

When talking about implementation measures, Zhao Dongwan said that we should proceed in an orderly way and step by step and within five years strive to build the framework of a qualified personnel mobility mechanism and shortly thereafter make it a preliminary model of a market mechanism. Currently, the policy and regulations which the Ministry of Personnel are formulating and which will soon be in draft form include: provisional regulations for management related to wages, job titles, records, personnel relations and provisional regulations on dismissal, resignation, unemployment, insurance of qualified personnel, mediation of qualified personnel mobility disputes, management of qualified personnel mobility service agencies and retirement insurance.

Resolving New Problems of Categorically Reforming Job Titles

Since the last half of 1986, institutional and enterprise units nationwide have launched work on specialized technological position appointments. Institutional unit appointment work is now basically completed and that of enterprises is about 70 percent completed. In April of 1988 the Central Committee decided to dismiss the Central Committee Job Title Reform Work Leadership Group. In the future, job title reform work will be under the leadership of the State Council and will be guided, organized and coordinated by the Ministry of Personnel.

When reporters asked about new movements in the Ministry of Personnel in position reform, Zhao Dongwan said that institutional and enterprise units should first of all complete specialized technology position appointment work in line with the original plans and move towards normalization on this basis. Job title appointments work should be made part of normal personnel management and emergency appointment evaluation should no longer be practiced. Generally speaking, job title reform played a positive role in further carrying out policy with regard to intellectuals, improving the position of intellectuals, improving treatment of intellectuals, promoting growth of qualified personnel, improving the composition of the

specialized technological ranks. However, from the reactions from various aspects, it seems some problems in job title reform are definitely also caused by historical, social and work factors. The Ministry of Personnel is currently engaged in intensive research preparing to resolve them on the basis of views heard from various aspects and in line with affirming achievements, summarizing experience, guiding by classification and gradually improving guiding thinking. After research and revision and on the basis of opinions on job title reform in state agencies broadly solicited from ministries and commissions, the Ministry of Personnel has formulated a new plan. The general idea is that based on the principle of implementing the "separate evaluation and appointment" characteristic of state agencies, i.e., evaluating the qualifications of personnel in state agencies for specialized technological positions on the basis of the conditions of the individual and in line with the stipulations on "trial conditions" specialized technological duties or administrative and managerial duties will be appointed on the basis of set up of agency posts. Specialized technological personnel appointed to administrative leadership duties at various levels could evaluate or accept the qualifications of the specialized technological duties of the appointee but they must not hold specialized technological duties concurrently. Evaluating the qualifications for a position is not linked with wages. One receives the wages of the actual job one assumes. Zhao Dongwan said that state agency qualifications for appointment to self-evaluated specialized technological duties in the past require reexamination according to the new plan.

Under the new conditions wherein party and state functions are separate and cadres are managed according to their ranks, a great deal of practical work dealing with intellectuals has been undertaken by government departments. Since the Ministry of Personnel is an overall management department bearing the brunt, that Zhao Dongwan feels is a heavy burden. He finally emphasized that no one department can take on all work among intellectuals in the new period; if the Ministry of Personnel is to do a good job, it will require the cooperation of each relevant department and the coordinated efforts of many related reforms.

Article Urges Freedom of Press

HK0606062189 Shanghai SHIJIE JINGJI DAOBAO
in Chinese 1 May 89 p 3

[Article by Shen Peijun 3088 1014 0971: "We Need an Environment in Which One Can Speak Freely and Truthfully"]

[Text] Democracy, as a system, is not an attractive promise of politicians nor a bestowal from the Redeemer, but a real creation by hundreds of millions of people.

The on-going reform is the second revolution for China. In a certain sense, this revolution is of more extensive and far-reaching historical significance than that aimed at overthrowing the "three great mountains." The reform of the economic structure will not only bring

about great changes in the people's economic life but also in the people's life style, conceptions, habit of thinking, and mentality. The reform of the economic structure will inevitably put forth a demand for corresponding reforms of the political structure, the cultural structure, ideology, and other fields. A reform of the press will also be indispensable. If one believes that the goal of the reform of the political structure is to develop socialist democratic politics, then the goal of the reform of the press will be the democratization of the press.

1. Democratization of the press is an essential condition for the development of democratic politics.

A socialist country is a country of the people, and socialist journalism is a cause of the people. This is obvious to all. The crux of the matter rests on whether legal means have been used to guarantee that the people enjoy real democratic rights and to introduce democracy for the press. Democracy, as a system, is neither an attractive promise of politicians nor a bestowal from the Redeemer, but a real creation by hundreds of millions of people.

It should be noted that due to the longstanding influence of "leftist" thinking and the underdeveloped democratic and legal system, there are twists and turns in the process of democratization of the press in China. Undue stress has been placed on the party spirit in the operation of the press while the nature of the press as the people's cause has been overlooked. Furthermore, it has been wrongly assumed that in the field of the press the party spirit is always in keeping with the nature of the press as the people's cause. This has naturally led to a tendency of autocracy in the field of the press. Now let me cite several examples:

—During the Anti-Rightist Movement in 1957, the mass media was used as an instrument to suppress democracy, to attack those holding to different opinions, and to cheat the public. A large number of outstanding Chinese intellectuals were denounced as "rightists" and deprived of their right to air different opinions. Some mass media organizations condemned these intellectuals as "antiparty and antisocialist elements," and no one dared uphold justice and support them. As a result they suffered from unfair disgrace for more than 20 years.

—During the Great Leap Forward in 1958, many mass media organizations acted as instruments to tell lies and talk big. At that time, RENMIN RIBAO took the lead in devoting the most prominent space on the front page to releasing false news, claiming that the per-mu yield of rice was raised to as high as 100,000 jin in Macheng county, Hubei province. For a while all the mass media in the country echoed RENMIN RIBAO by releasing extremely exaggerated reports and did everything they could to push for a precipitated transition to communism. It was really surprising that no mass media organizations showed even a

little courage to refute these sensational lies. This indicated that there was no freedom of the press in those years.

—During the Great Cultural Revolution, democracy for the press was most severely devastated. At that time the news media became a tool to fool the people and to defile public opinion. People made the following remarks on the performance of the mass media at that time: "Small newspapers copy from major newspapers, while major newspaper copy from 'Liang Xiao'." [Liang Xiao was the pen name of a group of writers at the service of the "gang of four."] During that 10 years, from the broadcast of the so-called "first Marxist big character poster of China" by the Central Broadcasting Station in 1966 to the false reports by RENMIN RIBAO on the Tiananmen Square Incident in 1976, all the mass media organizations in China were under the control of a small number of people and acted as accomplices.

History has told us that democracy in politics is closely related to democracy for the press. The absence of democracy in politics will inevitably lead to the absence of democracy for the press, and the absence of democracy for the press in its turn reflects the absence of democracy in politics. The 13th CPC National Congress suggested a reform of the political structure that is aimed at democratic politics. Undoubtedly this is of great directive significance to the reform of the press in our country.

The idea of democratic politics reminds us that after more than 30 years of setbacks and developments, there is a need to reevaluate certain outmoded theories on journalism. For example, we need to reevaluate the "theory on mouthpiece." This theory insists that the party's newspaper is the party's mouthpiece and therefore it will automatically be the people's mouthpiece. This theory has put the cart before the horse! The CPC emerged from the people, and it can only win the people's support by serving the people. Without the people's support, the CPC will lose its basis for existence. Historically or logically speaking, for a party newspaper, the nature of the press as the people's cause must be placed first and the party spirit second. A party newspaper is first of all the people's mouthpiece and then the party's mouthpiece. This sequence of importance can never be reversed. For example, in 1958 and 1966, our party newspaper apparently served as the party's mouthpiece, but it was absolutely not the people's mouthpiece! Not only party newspaper but all socialist mass media organizations should first of all serve as the people's mouthpieces and then the mouthpieces of a certain party or a certain organization. This is obvious to all.

2. Democratization of the press is needed for the survival and development of journalism in China.

The purpose of the reform of the press is to speed up the development of the press in this country so as to meet the

needs of the people and society. Marx said: "The people's trust is the condition for the survival of the press. Without this condition the press will completely wither."

After the 10 years of turmoil, people have no trust in and are discontented with the mass media in China. The press is now faced with a "trust crisis." People have learned how to distinguish between true and false information and how to analyze. They no longer believe that all the reports in newspapers are true. Instead they read CANKAO XIAOXI, listen to the Voice of America, and look for facts from hearsay. This on the one hand signifies the people's awakening and, on the other, shows that the reputation of the press in China has declined markedly.

Why did the reputation of the press decline? It is not convincing if the decline is attributed to interference and sabotage by the "gang of four." To a very large extent, the decline of the reputation of the press is related to the environment of subsistence for the press. As the old saying goes: "To thrive in calamity or adversity and to perish in soft living." In the period of democratic revolution, newspapers and broadcasting stations run by the CPC were full of vigor and vitality, and enjoyed very high prestige among the people. This was because they told the truth, advocated democracy, spoke for the people, and represented the people's will. At that time, the mass media organizations run by our party did not enjoy even a legal status but had to fight their way to survive under a very tough environment. The party's journalists had to run newspapers at the risk of their lives and, therefore, they had to win the people's support by promoting democracy and to win the people's trust by speaking the truth.

Since the founding of the PRC, news media organizations run by the CPC have dominated over the press circles. Mass media organizations controlled by the bureaucratic bourgeoisie were banned, while those run by democratic parties and by personages without party affiliation were either transformed or ceased to exist except in name because of changes in the environment. The vanishing of the counterparts meant the absence of competition. In the first few years thereafter, the party's mass media organizations still could maintain the tradition that they had cultivated during the period of democratic revolution and tried their best to listen to appeals from the masses. After 1957, however, political movements were launched one after another, resulting in a political situation in which everybody felt himself imperilled. Autocracy began to prevail in China and nobody dared mention democracy for the press any more. In the wake of the development of a highly centralized political structure, mass media organizations gradually became a political instrument—all of them have been fully "run by the government," financially supported by state appropriations, and organizationally put under the direct leadership of party organizations at all levels. Their main functions are merely to relay guidelines and instructions of the authorities to the lower levels and to propagandize

the party's principles and policies. As a result, many people equated articles carried by party newspapers with documents issued by the central authorities. For a long time the mass media has "spoken with one voice," and one realized the views of 10 newspapers by reading a single one. This is quite an abnormal phenomenon. Under such a circumstance of "uniform public opinion," the ugly practice of telling lies, talking big, and indulging in empty talk prevailed among the mass media in China. So it was inevitable that the mass media would lose the people's trust.

To ensure that the socialist press will survive and develop, we need to create a democratic environment for the press, and our news media has to win the people's trust by "voicing the people's views and desires." The so-called democracy for the press is actually the expression of the socialist democratic system in the field of journalism. It comprises of the following aspects:

- The mass media can cover all major events relating to the state and the people free of administrative interference, so that the people can be fully informed of the truth.
- The mass media must try their best to listen to the masses' appeals and to reflect different views among different social strata.
- The authorities should tolerate the existence of "privately run" mass media organizations and allow them to develop. It is necessary to encourage the mass media to support themselves financially and to assume full responsibility for profits and losses, and thus emancipate most mass media from the government's administrative control.
- It is necessary to break through the old rut of "uniform public opinion" and allow the press to voice different views and compete with each other in news coverage.

Democracy for the press is a system which is to be enforced by laws. Therefore it is necessary to formulate the "law for the press and publication." Such a law can provide an environment allowing the vast number of journalists to speak the truth freely and can guarantee that social activities are conducted in a democratic manner, and are made known to the public. At the same time, it is necessary to punish any people who spread rumors and slander through the press at the expense of public interests. As pointed out by Lenin in the ordinances on publication that he signed shortly after the victory of the October Socialist Revolution: "Once a new system is established, all administrative intervention of the press must be stopped. And full freedom of publication should then be granted according to the most enlightened and progressive law as far as the press assumes responsibility to the court." Thus it can be seen that the blueprint that Lenin drew for the socialist

system included democracy for the press. It is just a pity that no due importance has ever been attached to this idea.

3. Democracy for the press is an objective need of the reform of the economic structure.

It was inevitable that the hidebound economic structure and relations of production that existed in China before the reform would turn the mass media into political instruments, but the new economic structure that has emerged after the reform and is full of vigor and vitality, calls for full democracy for the press.

So the mass media are required to base their reports on facts and cover both the positive and negative aspects of issues emerging from the reform. This cannot possibly be achieved without democracy for the press. Since reform is an experiment, we can hardly ensure that the principles and policies formulated by the party and the government will be free from shortcomings and side effects. So the vast number of theoretical and practical workers are required to make objective comments, and to point out possible consequences or side effects of one policy or another in good time. Only if our mass media transmit these messages in good time will we be able to push our governments at all levels to promptly revise policies so that the reform will proceed along the right track. This can hardly be possible without democracy for the press. During the reform, the mass media themselves may also air erroneous views or release untrue reports. In this case, mass media organizations will have to exercise mutual supervision, practice criticism, and conduct debates so as to uphold the truth and correct mistakes. Again, this will hardly be possible without democracy for the press.

What merits our attention is that some austere "non government-run" newspapers have emerged from the reform over the past few years. Upholding the principle of seeking truth from facts, they never indulge in empty talk and seldom deliver sermons. They have played an unusual part in the process of democratization of the press. Now let us cite an example. In early 1986, reports on the "Ma Ding Incident" by an economic newspaper were seriously inconsistent with the facts. This aroused great grievances in economists' circles. But most "government-run" newspapers remained indifferent in such a situation. Finally two "non government-run" newspapers stepped forward to uphold justice and clarified the truth to the public. (see SHIJIE JINGJI DAOBAO and JINGJIXUE ZHOUBAO, April 1986)

This case has convincingly shown that "non government-run" newspapers are objective, fair, and brave in speaking the truth. The rise of these newspapers was in itself a product of the reform. They do not depend on budgetary appropriations from the state but raise funds on their own and operate independently. They do not rely on administrative orders for maintaining their circulation but attract large numbers of readers by courageously speaking the truth. They represent the direction

of development for the socialist mass media under democratic political conditions.

The economic reform and the opening-up policy have brought about the expansion of the camp for democracy of the press. Nowadays, almost all government-run mass media organizations have initiated their commercial advertising business and, with the income they earn from advertising business, they make up the short portion of funds that state budgetary appropriations fail to cover. Enterprise-like operation has pushed the government-run mass media to pay more attention to the needs of their consumers (readers and audiences). So they can maintain closer ties with the masses. At the same time, more and more semigovernmental and "non government-run" mass media organizations are emerging. Some of them are operated independently with self-raised funds, some are run as enterprises and are subsidized by the state, and some are joint ventures run with Chinese and foreign funds. The diversification of the mass media's financial sources has paved the way for democracy for the press and is undermining the basis of autocracy in the press.

Now that the theory of "one country, two systems" has been put forth and is being implemented, mass media organizations in Hong Kong, Macao, and Taiwan will coexist and compete with their counterparts on the mainland in the future. Politically speaking, "uniform public opinion" will not be able to stand any longer, and a democratized press is going to emerge as a powerful means to enable all the Chinese people to get involved in the management of the state.

To sum up, we can conclude that democratization of the press in China is becoming a part of the great trend of historical development in China. This reform will be of much greater and profound significance than people can foresee at the present time.

Inflation, Corruption Breed Popular Disaffection
40050386 Hong Kong PAI HSING [THE PEOPLE] in
Chinese No 188, 16 Mar 89 pp 11-12

[Article by Zhang Jiefeng 1728 4814 7685: "Surveys Reveal a Confused and Disaffected Society"]

[Excerpts] [Passage omitted] What problems worry the masses on the mainland most in 1989? According to a poll taken at a seminar late last year attended by more than 100 reporters from across the nation forming a news observation network, they are, in descending order:

1. Inflation; 2. honesty in government; 3. grain production; 4. education; 5. controlling the scale of capital construction; 6. press reform; 7. population control; 8. social law and order; 9. legal construction; 10. government credibility.

Readers with a close interest in events in China may have already come across this piece of news, which was reported in several mainland newspapers in late January. But they may not know the story behind the story. The network of news observers was organized by the Restructuring the Economic System Research Institute (a research organization under the State Restructuring of the Economic System Commission). When the seminar was over, the officers of the institute thought that the survey would send an alarm to society and therefore decided to announce it at a press conference. To their surprise, the authorities got nervous. That very day, the Central Propaganda Department instructed all mass media not to announce the survey results, thus killing the story then and there.

Somehow, this survey later ended up in the south and was published in several newspapers, probably because the newspaper offices were unaware that the Central Propaganda Department had earlier imposed a gag on it. SHENZHEN TEQU BAO ran it on 20 January and WENZHAI BAO, a tabloid put out by GUANGMING RIBAO, reprinted it in early February. After this detour, the news finally found its way back to the north. [passage omitted]

In fact, the top 10 problems enumerated above are common knowledge. Why should the government bother to cover them up? If we compare them with a large-scale survey conducted by the Restructuring the Economic System Research Institute, we will realize that the top concerns also weigh heavily on the mind of the man in the street.

The Restructuring the Economic System Research Institute set up a social opinion research office in 1987 and created a 40-city nationwide survey network called the social survey system. This system conducts a survey twice annually, in April and October. An identical questionnaire is sent to 2,580 randomly selected urban residents to gauge their psychological response to social conditions. One question asks, "What social phenomenon worries you most?" The April 1987 survey yields the following results, in descending order (numbers at end denote ranking in the April 1988 survey):¹

1. Further inflation (1).
2. Corrupt social climate (2).
3. Loss of medical and welfare guarantees (3).
4. Confusion in social thought (5).
5. Widening gap between rich and poor (4).
6. Personal unemployment (6).
7. Environmental pollution (8).
8. Lack of human compassion (7).
9. End to reform (9).
10. Equal opportunity becoming more and more remote (10).

More than the reporters' seminar, this survey reflects urban residents' feelings accurately and truthfully. Workers represent the largest group of people surveyed,

about 40 percent; cadres, 10 percent; and teachers, 10 percent. In terms of educational level, those with a junior high and senior high school education each account for a third, those with an elementary education constitute 14 percent, illiterates make up 7 percent, and people with a postsecondary education or above make up 12 percent. Since the majority of those surveyed are ordinary people, the survey is a mirror of the psychology of the masses. What concerns them most are such personal bread-and-butter matters as prices and issues of party style that directly affect their lives. As for the progress of reform, who cares? The question of "opportunity" never occurs to them.

Another question in the survey asks the respondents to list what they want from life. The answers can be seen as a supplement to the above question. (First set of numbers denotes ranking in April 1987 survey. Numbers at end are rankings in April 1988 survey).²

1. Guaranteed livelihood (2).
2. Increasing personal income (1).
3. Improving housing conditions (3).
4. Putting one's talent to use and achieving something (4).
5. Improving social status (5).
6. Enriching cultural life (7).
7. Strengthening interpersonal ties (6).
8. Having more say in public affairs (8).
9. Obtaining more opportunities (9).

In 1988, the public felt a greater sense of urgency about increasing incomes, clearly a response to skyrocketing prices that year. At a time when the government was unable to do anything about inflation, prices undoubtedly constituted a sensitive issue. There is no telling what might happen if public sentiment on this issue is inflamed further. No wonder the government felt compelled to step up propaganda on this front. [passage omitted]

When economic reform made its debut in cities, the Restructuring of the Economic System Institute had already emphasized the need to strengthen sociological research to serve reform. Director Bai Nanfeng [4101 0589 7364] of the Social Studies Office of the institute pointed out that the introduction of comprehensive reform touched on all aspects of social life such as the social status and values of individuals as well as their material interests. Accordingly, the institute has been studying public psychological tolerance for price reform since 1985.

It is clear that the public mood was upbeat in the early days of reform. Besides giving reform their rational support, people were also hopeful about the future (despite the absence of real changes for better or worse in their lives.) By 1988, however, they were showing a good deal of dissatisfaction.

Just take changes in family income level, for instance. According to the February 1985 survey, more than 80 percent thought that their incomes had gone up (significantly, 19 percent; and marginally, 63 percent).³ Urban surveys by the social research system in April 1987 and April 1988, on the other hand, show that only 60 and 46.5 percent, respectively, of the respondents believed that their family incomes had increased (see Table 1). In the April 1988 survey, 27.6 percent said their living standards had dropped, a larger proportion than those who reported no change (see Table 2). If reform does not benefit the general public, what good does it do?

Table 1: Changes in Living Standards

Survey date	Percentage reporting increase in incomes
February 1985	82.5%
April 1987	59.8%
October 1987	54.3%
April 1988	46.5%

Table 2: How Respondents in April 1988 Survey Assess Own Incomes

Increase	46.5%
No change	25.9%
Decrease	27.6%

Actually, the 1985 survey already pointed to a gap between people's level of understanding and their level of feeling and the fact that they had yet to adapt to the commodity economy pattern of social life. Proposed solutions then were to raise public adaptability and enhance their enterprising spirit through actual practice in market life. The possibility of panic buying and runs on banks was also discussed at the time and warnings were issued.

Subsequent social changes showed that decisionmakers had failed to respond to survey results and come up with proper countermeasures. In 1988 there was panic buying of grain, oil, and nonstaple foodstuff everywhere. Surveys in 1987 and 1988 reflect a declining level of satisfaction among members of the public with all aspects of society. [passage omitted]

Director Meng Fanhua [1322 4907 5478] of the Social Opinion Survey Office said that if one word could sum up popular feeling, it would be "disaffection." Whether about social institutions, personal life, or social situation, the level of satisfaction has been slipping while the level of disaffection has been edging up. More and more people have actually expressed "disaffection" rather than "satisfaction" with 12 aspects of the social situation (see Table 3).

Table 3: Evaluation of Social Conditions

Survey date	Satisfied	Dissatisfied
April 1987	48.91%	33.31%
October 1987	44.68%	36.04%
April 1988	37.19%	44.03%

While disaffection with rising prices has been mounting (from 80 percent to 92 percent), disaffection with the legal system, social climate, and party style has also gone up markedly, which suggests that public grievances spring from a profound disgust with unhealthy trends, corruption, official profiteering, and privilege, as well as an inability to cope with the changes resulting from price reform. Meng Fanhua reasoned that while the masses might not necessarily understand "the state of the legal system," they could see that the unhealthy trends had gotten so bad that they were totally beyond control of the legal system. Bai Nanfeng pointed out that, owing to the capitalization of power and various social resources, reform has radically altered not only the distribution of interests, but, even more important, the sources of interests and the interest structure as well. Amid these changes, some strata, such as administrative and enterprise cadres have acquired more capital than others, such as workers. The result is massive disaffection. [passage omitted]

The externalization of disaffection poses a threat to social stability. Workers have been staging passive slowdowns and have even gone on strike. Officials of the All-China Federation of Trade Unions have admitted that there were more than 100 strikes in 1988. At the extreme end are disturbances to social order and silly, senseless acts. But more common are a degeneration in morals and ideals and a growing "egoism."

In Meng Fanhua's opinion, social psychological confusion and the loss of purpose in life are among the most serious problems facing China. In the past, we talked about models, social responsibility, and self-sacrifice. All this has become totally irrelevant to the current social situation. When reform itself has no clear objectives, the value system of man is necessarily lopsided. The question many people ask these days is, "What is the point of living?"

Meng Fanhua pointed out that the absence of expectations had given rise to myopic behavior. Some people even ask disdainfully, "What is socialism? Whatever benefits oneself is socialism." Everybody is busy profiteering. "It would be a waste if one does not profiteer" has become a pet phrase. Eating, drinking, and merry-making is now the top priority. "An end of the world" mentality is pervasive. The "egoism" on the mainland is different from "individualism" in the West. People would do everything as long as it is to their benefit and have little consideration for other people. For the smallest benefit they are willing to hurt others. Meng Fanhua cited one absurd example: Some young people often break the windows of houses in the middle of the night and remove the iron bars to sell as scrap iron.

Middle-aged intellectuals feel even more torn. In the past, they were indoctrinated to slave like horses; it was

an honor to bear hardships for the state. Today they see others lining their own pockets regardless of everything else and living a much better material life. Feeling bitter about it, they too have been looking for ways to earn "extra income." Technical personnel have been working as factory consultants and intellectuals have been writing books and going into publishing. They are busy taking care of personal business during office hours. As for regular duties, who cares? [passage omitted]

Do not blame social confusion on reform. We can only say that decisionmakers have failed to pay attention to the social response to reform. Even more important, if the old social system is not changed, how can society adapt to the new circumstances brought about by reform?

Footnotes

1. Data, previously unpublished, supplied by Restructuring the Economic System Research Institute.
2. Data, previously unpublished, supplied by Restructuring the Economic System Research Institute.
3. The survey was conducted in 11 municipalities and 16 counties in Beijing and five provinces, including Henan, Zhejiang, Hunan, and Anhui. A total of 2,600 questionnaires were given out. Since the institute had not yet established its urban survey network then, the sampling method of this survey was different from that of the 1987 and 1988 surveys. Hence its results were not strictly comparable to those of the later surveys and can only be used for reference purposes. For detailed results of the 1985 survey, see *The Social Psychology of Reform: Changes and Choices*.

Striking 'Hard, Unrelenting Blows' at Crimes in Five Provinces

40050546.a Beijing RENMIN GONGAN BAO in Chinese 12 May 89 p 1

[RENMIN GONGAN BAO dispatch: "Striking Hard, Unrelenting Blows; Keeping Vigilant Guard; Public Security Organs in Shandong and Four Other Provinces Go All Out to Preserve Order and Stability"]

[Text] Since mid-April, public security organs at all levels in Shandong Province have taken advantage of the foundation laid during the previous period's concentrated offensive against fugitives and escaped prisoners to continue mounting a large-scale, united operation cities and towns throughout the province known as "strike a blow against fugitives and escaped prisoners, deeply rout crime rings." To date, 5300 fugitives and escaped prisoners and other criminal offenders have been apprehended in 15 cities and districts during this operation; 449 major criminal cases have been broken, and 488 crime rings have been smashed. Public security

organs across the province received 3119 tips from the people which resulted in 179 arrests. At Public Security Bureaus, 159 criminal offenders turned themselves in.

Authorities in Sichuan have made repeated unsuccessful efforts to bring a halt to that province's rampant robbery, major theft, gambling, and prostitution. From January 1 of this year, across the province special operations, called "the two blows" and "the two roots," have been mounted to strike a blow to robbery, strike a blow against major theft, root out gambling, and root out prostitution. As of the end of March, concentrated attacks had been mounted in 21 cities, districts, and prefectures throughout the province, and more than 7700 cases had been broken. One thousand and nine of these were major cases, and a total of 1087 crime rings of every sort were ferreted out. Nearly 500 gambling dens and 140 brothels were smashed. A strong and timely blow has been dealt to a group of people who have committed serious violations of the law, and this has played a valuable role in improving the prevailing social climate.

On April 21, Sichuan's Party Committee and Provincial Government held a telephone conference and took concrete steps to deepen these two special operations. They called for organization on all fronts in key localities and stretches of railroads and highways where criminal activities and lack of public order have been especially pronounced. They called for a strong crackdown and a new situation within a prescribed time period. The small number of major cases must be solved in a timely manner, and must be prosecuted severely in accordance with the law.

There have been more criminal cases in the first quarter of this year in Hunan Province than during the same period last year. Robbery and theft have risen especially sharply. Therefore, the provincial government's Judicial Affairs Committee has decided to mount a concentrated three-month operation, the primary targets of which are robbery, fugitives and escaped prisoners, and crime rings. The Judicial Affairs Committee has pointed out that during this operation, certain mistakes of the recent past must be corrected. During that time period "many were detained, cases were handled slowly, and sentences were too lenient." The committee stated that heavy sentences must be resolutely given those who deserve them, and that death must be resolutely dealt to those who deserve it, in order to deter crime, and educate and hearten the masses. Public security organs must crack down in key areas and along key stretches of road, and prevent crime. As for crimes which have already been committed, they must be "quickly investigated and quickly solved," and "severe and prompt punishment" must be dealt out. Punishment and prevention must be coordinated. Punishment must enhance prevention, and prevention enhance order, in order to help carry out the various measures aimed at restoring control.

Beginning in mid-April, Jilin Province will mount a concentrated two-month campaign to attack, root out, and crack down on crime throughout the province. There will be special attention paid to cracking down on districts, industrial and mining areas, transportation routes, and market towns where public order has presented complex problems. A blow will be struck against serious violent criminals, as well as murderers, robbers, rapists, thieves, and fugitives and escaped prisoners. There will be special concentration on rooting out the producers, peddlers, and distributors of pornographic materials, as well as such disgusting social phenomenon as brothels and gambling dens.

The Gansu Provincial Party Committee convened a meeting on April 14 to study the state of social order. They called for an intense, powerful, and large-scale struggle across the province to be begin now. This struggle would concentrate blows against serious criminals.

It was stated during the meeting that a special struggle must be organized and concentrated blows must be delivered in any area where social order is not good, where crime is rampant, or where the security of the masses is threatened. Such serious criminals as murderers, robbers, rapists, drug dealers, thieves, gambling house operators, and those who force, entice or aid women to engage in prostitution will be the primary targets of this operation. At the same time, there will be a public order crackdown in order to achieve the goal of striking a blow against theft and eliminating disgusting social phenomena. Mass movements will be organized to deliver a blow to door breakers, lock pickers, pickpockets, bicycle thieves, and those who hijack goods in transit. Cities, railroads and principal transportation routes must be the key targets, and the principle of "those with administrative authority must take responsibility" will be observed as various comprehensive control measures are carried out in factories and mines, schools, government organizations, and neighborhoods. Political and judiciary departments must draw up unified plans, move swiftly, coordinate closely, and execute the battle with unity, in order to bring about a clear change in the entire province's social order.

Forum on Transition to Pluralistic Society
40050442 Hong Kong KUANG CHIAO CHING [WIDE
ANGLE] in Chinese No 198, 16 Mar 89 pp 24-25

[Report by Du Yi 2629 8239: "They Sing A Different
Tune From the Mainstream"]

[Excerpt] [Passage omitted] At the end of 1985, QINGNIAN BAO [YOUTH JOURNAL] and SHENGHUO ZHOUKAN [LIFE WEEKLY MAGAZINE] of Shanghai were the first to expose various phenomena of Chinese society in the newspaper in the new form of news report—"feature story." Since then, all newspapers have followed suit. The Wenhui Publishing House, which is a subsidiary of Shanghai's Wenhui Bao, went

one step further to collect all feature stories published by these two newspapers in 1988 and compiled them into a book called *The Many Faces of Shanghai Society in 1988*. The author of this book, Lu Mingfang [0712 2494 2455], and two editors of Qingnian Bao and Shenghuo Zhoukan, He Jianhua [0149 1696 5478] and Yuan Youming [5913 1635 7686], recently invited Sociologist Deng Weizhi [6772 0251 1807], who was newly elected vice chairman of the Central Committee of the China Association for Promoting Democracy, and Professor Wen Yuankai [3306 0337 0418] of the Chinese University of Science and Technology, who is now vacationing in Shanghai, to a forum to talk about the hundred and one faces of Shanghai society and to express their opinions. The following is report on the forum. From it readers can hear another side of the story in mainland China.

He: Readers' reactions to newspapers' feature stories on various social phenomena are very complicated. Many people frown upon them.

Deng: We should admit and fully understand various current social phenomena, and fully rationalize their existence.

Wen: Developing from a unitary society to a pluralistic society is a world trend of great momentum. Those who follow this trend will prosper; those who resist will perish. Whoever frowns upon it and complains all day long will eventually find himself crying alone.

We often accept various social phenomena in a passive manner. We have denounced the wave of new technology, blue jeans, disco, and jazz music as capitalism. In recent years, this haughty mentality in the ideological sphere has gradually collapsed. Now there are even discos for the elderly. This explains that the whole society has accepted the pluralistic tendency.

Some foreigners said that they could see the progress of China from the clothes of Chinese girls. Indeed Chinese used to be called "blue ants." Later due to the popularity of military clothing during the Cultural Revolution, Chinese became "yellow ants." Now there are all kinds of colors. So the emergence of pluralism has its background and economic basis. Ever since we allowed some people to become rich first, consumption patterns have been diversified. But how can they spend their money if consumption channels are so narrow and houses and cars are not available on the market?

Deng: Take the gambling phenomenon for example. I do not know how to play mahjong. During what period of Chinese history was mahjong least popular? The answer is the three years of natural calamities in late 1950's. Then each person had only 2 liang of grain ration a day. How could they gamble? Gambling is most prevalent in Wenzhou of Zhejiang. Wenzhou also happens to be the first to get rich in the nation. It is the same with burning

incense and worshipping Buddha. God is created and fed by humans. God has food to eat only when humans have food to eat.

Wen: As we open up to the world, pluralistic consumption has also been affected by international trends. The imported toy, Transformer, is selling like hot cakes, indicating that there should be a drastic change in China's traditional toy market. Space and electronic toys give people a sense of high-tech rhythm and help broaden their minds.

Deng: I have never cursed the "phenomenon of high consumption" or "premature consumption." China has only immature, not premature, consumption. During the discussion of this issue, people always cite television sets as an example. They say that black-and-white television sets still dominate many developed countries, but the popular rate of color television sets in China has already reached so-and-so, etc. As a matter of fact, this leaping development is not unusual. As long as the economic source of consumption is legal, not murder and robbery, consumers should be allowed to spend their money in any way they want. We should realize that consumption is completely personal, so we should not flagrantly criticize. It is absolutely impossible for someone to buy a color TV while he is starving. Marx once said that production is for consumption and consumption is to promote production. Only extreme "leftist" thinking would separate production from consumption.

Deng: International marriage and the tendency of "marrying foreigners" are also an economic trend. In the past China was isolated from the world, so people took this phenomenon very seriously and thought it was inconceivable. In fact, Princess Wencheng and Wang Zhaojun of ancient history were also engaged in international marriages, weren't they?

Deng: There is also the issue of divorce. China tries to control divorce, but the divorce rate continues to climb every year. A very dependent woman certainly would not want a divorce. Only independent women would want divorce. So when people become more independent, the divorce rate is bound to increase. Take premarital sex for another instance. It is bad. It could cause many social problems. Rumor has it that "there is no virgin in the Beijing University and everybody in the Qinghua University is a hooligan." This is of course exaggeration. But we must not deny that the phenomenon of premarital sex has indeed developed. There are many reasons. One of them is the invention of contraceptives. Contraceptives cut off the link between sex and childbirth. Besides, the spreading of scientific knowledge has reduced the consequences of such behavior.

Wen: In the sphere of culture and arts, publishing high-class books is difficult and pure literature does not sell at all, but "street vendor's literature" is very popular. Nevertheless, folk culture is not fierce flood and savage beast. It is not great outrage. It is normal pastime. At the

end of a hectic day, people need recreational reading, such as Kung Fu novels. There is a reason why the fever of Chiung Yao [8825 3852] novels occurred a few years ago. Chinese girls' love is colorless, and has heavy political overtones. For instance, they have to consider a boy's family background and many other nonemotional factors such as origin and area. Because of this, Chiung Yao's novels which emphasize emotional factors in love have great appeal to girls. One nurse even declared that she wants nothing in life except for Chiung Yao's novels.

Yuan: Different views on social phenomena may create misunderstandings of the reform and the open policy and cause social ideology and quality to decline.

Wen: We should realize that multifarious, pluralistic social phenomena are normal and that unitary, puritan society is abnormal. Everybody, including foreigners, should be able to withstand more mentally. Many foreigners also think that socialism is the same as puritanism. The point is that society needs a powerful value orientation. The simple black-or-white moral choice of the past should be changed. For instance, those who emulate Lei Feng are good children. Are those who do not emulate Lei Feng bad children? The types of heroes that we promote are also extremely simple. One type is revolutionary heroes such as Mao Zedong and Zhou Enlai. The other type is moral heroes such as Zhang Boru and Zhang Haidi. But how can the nation's 1 billion people all become revolutionary and moral heroes? Moral tendencies also have something to do with international standards and usual practices. We should allow more choices.

Deng: There is no unified standards for multifarious social phenomena. For instance, blue jeans and "dance girls" used to be considered unethical. "Marrying foreigners" used to be frowned upon by some people. Now people still frown upon it but in an envious sort of way. Chinese often think "we are right today but were wrong yesterday." But they fail to realize that "today" will become "yesterday." Social concepts will not remain immutable. The life of social concepts is becoming shorter and shorter. The 2,000-year rule of Confucianism is no longer possible in modern times. This is determined by the development of productive forces. The rapid development of science and technology has caused economic basis and social concepts to change at a higher rate. This should be a good thing. We should be glad, not fly into a rage, when we see that our concepts are outdated. We now often mention the 3rd Plenary Session of the 11th CPC Central Committee. In fact, that session also had some conservative respects. For instance, at that time it was still against implementing the output-related contract system at the household level.

Yuan: Our ability to handle emergencies is still very poor. With regard to unhealthy tendencies, for years we have adopted the "forbidding" methods or rely on political movements and leaders' orders for solutions.

Deng: All great things have a dark side. The commodity economy can bring all kinds of messy things, which should be dredged, not blocked. Take gambling, for example. The gambling industry in the famous gambling state Monaco is very orderly, and it also helps increase the national income. Since the mahjong fever already exists, we might as well put it under control. Currently the Shanghai Municipal Government has issued rules to ban gambling, but mahjong sounds can be heard almost in every house on the eve of the lunar new year. Therefore, we need to guide and rectify gambling order.

Wen: It is impossible to ban gambling and mahjong. This is the same with pornographic periodicals and video tapes. This, on the other hand, explains that China's legal system is still very weak. For instance, there are as many as 100,000 street vendors selling foreign cigarettes in Shanghai Municipality. The departments concerned do not know what to do with them. Furthermore, the municipal government prohibits setting off firecrackers within the city limits, but to no avail. This is caused by ineffective enforcement of rules and regulations as well as the fact that the legal system is weak. Would anyone dare to sell foreign cigarettes if penalties were severe? For instance, foreign cigarette vendors can be banished to Qinghai after being fined three times, and they cannot come back unless they pay 10,000 yuan in bail. We should establish an economic bail system, especially for economic crimes. Of course, this should be done in accordance with the principle that everyone is equal before the law. Only then can the legal system assume authority and genuinely apply sanctions against criminal activities. Secondly, we should design more forms of ideological consumption. At present, places for recreational activities are fairly limited, and television programs are also on the dull side.

Deng: A few years ago, the reform of economic structure was carried out alone, causing the bottleneck effect. Now the reform of political structure appears to be increasingly important. What is even more important is the reform of cultural and ideological concepts. We should increase the coherence of society and refrain from high-sounding words

which cause resentment and boredom among people. We should promote four senses among Chinese. They are the sense of citizenship—understanding their own rights and duties—the sense of society—being responsible for establishing a harmonious society—the sense of nation—realizing the “global status” of their own country—and the sense of nationality—respecting themselves and being confident. In sum, we should help people straighten out their conditions, smooth out their feelings, and boost their morale.

Hebei Court Sentences Convicts to Death

SK2605080889 Shijiazhuang HEBEI RIBAO
in Chinese 11 May 89 p 1

[Text] The Cangzhou Prefectural Intermediate People's Court recently held an open trial in the city of Renqiu for the vicious convicts accused of destroying electric facilities. During the trial, convicts Guo Suoluan and Cheng Wenhua were sentenced to death and immediately executed by a firing squad, according to an order issued by the provincial Higher People's Court. Attending the trial were more than 200,000 people from various social circles.

During the 10-month period between the winter of 1987 and July 1988, convicts Guo Suoluan and Cheng Wenhua, who were accompanied by four other criminals, including Chen Zhonghua, Yang Damin, Wang Shuanzhu, and Yang Jianqiang, committed more than 20 crimes by wantonly cutting the electric wires of agricultural production equipment and destroying equipment, including 20 transformers, kilowatt-hour meters, and mutual inductant appliances, as well as 4,000-meter-long electric wires. All of these crimes have caused 30,000 yuan in direct losses and 680,000 yuan in indirect losses and brought about serious damage to agricultural production. During the trial, Chen Zhonghua was sentenced to 10 years imprisonment and deprived of his political rights for 3 years; Yang Damin was sentenced to 8 years imprisonment and deprived of his political rights for 2 years; Wang Shuanzhu was sentenced to 3 years imprisonment, and Yang Jianqiang was sentenced to 1 year imprisonment.

Magazines Seek Distribution on Mainland
*HK1905083589 Hong Kong ZHONGGUO TONGXUN
SHE in Chinese 1041 GMT 16 May 89*

[Text] Hong Kong, 16 May (ZHONGGUO TONGXUN SHE)—According to a report from Taipei, in view of great demand for various types of books from Taiwan on the mainland, some Taiwan magazines and periodicals are also very eager to seek distribution on the mainland. The newly-published CHUNG KUO SHANG CHING CHOU KAN [CHINA COMMERCIAL INFORMATION WEEKLY] has even planned to set up distribution offices in Shenzhen and Hong Kong. CHUNG YANG JIH PAO [CENTRAL DAILY] held that many Taiwan magazines are energetically planning to seek distribution on the mainland.

TAIWAN'S ARTISTS Magazine and LION ARTS Magazine exchanged editors with mainland's MEISHU ZAZHI [ARTS MAGAZINE] and ZHONGGUO MEISHU BAO [CHINA ARTS NEWSPAPER] at the beginning of this year. This has led to widespread repercussions in Taiwan and on the mainland. The Chief Editors of the ARTISTS Magazine and LION ARTS

Magazine said that their magazines were already distributed on the mainland via Hong Kong in the past and about 3,000 copies of each issue entered the mainland. In addition to exchanging editors with the mainland, the LION ARTS Magazine has also made an annual plan for exchanging information on artistic activities and introducing noted artists on both sides of the strait.

Taiwan's CHUNG KUO SHANG CHING CHOU KAN, which started publication in March of this year, is ready to seek distribution on the mainland and has planned to set up offices in Shenzhen and Hong Kong. It has made a long-term plan for work in this respect. However, the magazine has held that there are some difficulties for distributing Taiwan magazines on the mainland at present: 1) Prices are too high. 2) The difference between simplified and complicated Chinese characters has constituted a problem. 3) The magazines' distribution network on the mainland is not good enough. Further efforts are needed to make a breakthrough.

Besides, the ASIAN WEEK, Tian Hsia Publishing House, TIAN HSIA [THE WORLD] Magazine, and ZHUO YUE [OUTSTANDING] Magazine are also eager to remove obstacles preventing them from entering the market on the mainland.

Taipei's Flexible Diplomacy, Unification Issue
40050357 Hong Kong MING PAO YUE KAN [MING
PAO MONTHLY] in Chinese No 279, Mar 89 pp 21-22

[Article by Yang Man-k'o 2799 3355 0344: "Is Flexible Diplomacy Good or Bad for China's Unification?"]

[Text] To counter the flexible diplomacy Taipei recently has adopted in an effort to develop official relations in the international community (with states and [international] organizations), a spokesman for the Chinese Ministry of Foreign Affairs issued a statement on 18 December last year rebuking Taiwan for creating "two Chinas" or "one China and one Taiwan." The next day, a spokesman for Taipei's Ministry of Foreign Affairs issued a response charging that Beijing was undermining efforts by the nations with which Beijing maintains diplomatic relations to upgrade their substantive ties with Taiwan and stated that Taiwan's position that Taipei represents the sole legitimate China had not changed. This exchange of uncompromising statements between the two sides of the Taiwan Strait clearly suggests the possibility that confrontation between the two states may worsen in the near term, and this is bound to attract widespread attention from the international community and public opinion.

There were three key elements in the statement issued by the Chinese Foreign Ministry:

1. Nations with which China has established diplomatic relations.

China does not object to the practice by nations with whom she maintains diplomatic relations of establishing non-governmental economic, trade, and cultural ties with Taiwan but opposes establishment of official relations or maintaining contacts of an official nature with Taiwan by these countries.

2. International organizations.

Participation by the Taiwan authorities in a small number of international government-to-government organizations (such as the Asian Development Bank) under the designation "China Taipei" is a special arrangement that must not be interpreted as universally applicable to other international government-to-government organizations.

3. The Taiwan authorities.

Beijing believes that Taiwan's flexible diplomacy is designed to create "two Chinas" or "one China and one Taiwan."

The first of these key elements is merely a reiteration of China's traditional stand, because each time Beijing established relations with a country, she achieved an agreement on the "sovereignty" issue, and each "communique on establishment of relations" emphasized this point. The second element represents an effort on China's part to establish a clear limit with respect to the

close combat that frequently occurs between the two sides of the strait in international organizations. That is to say, Taiwan's coexistence with China in international government-to-government organizations is an individual case specific to certain international organizations and may not be made a universally applicable model. This unequivocal statement may create considerable obstacles to the operation of Taiwan's "flexible diplomacy." The third element is China's first public statement of her stand vis-a-vis and a condemnation of Taiwan's movement toward an enterprising, active, and flexible diplomacy.

In reality, the statement is supposed to serve as a stern policy-type declaration addressed to the international community and it aims at preventing Taiwan from implementing her flexible diplomacy throughout the world. While the statement is consistent with Beijing's previous policy, making no qualification thereto or breakthroughs therefrom, it is the most systematic and clear statement of China's position addressed to the outside world since 1980. The only other statement similar to this was the one issued after the Asian Bank incident occurred in 1984.

The factor directly underlying this move by Beijing is the fact that Taiwan's shift from "shattered jade policy" to "flexible diplomacy" has garnered Taiwan many breakthroughs and successes and produced many headaches for Beijing's diplomacy. Taiwan's flexible diplomacy offensive became especially aggressive in the period between the rise to power by Minister of Foreign Affairs Lien Chan and the resignation of the backward senior statesman Shen Ch'ang-huan.

Let us take a few examples of incidents that occurred just in recent months. In the area of international organizations, there was the entry into GATT, a major incident, and then there was the "flag incident" that occurred in the Argentine Baseball Federation in mid-December, a minor clash. These examples show the aggressiveness of Taiwan's flexible diplomacy. And in the area of disturbing the countries with which China maintains diplomatic relations disrupting China's relations with other countries with whom she has official ties, Taipei's frequent and close relations with the United Kingdom and Egypt, with whom China has established official ties, has caused China much anxiety.

Especially important was the agreement between Taipei and Egypt in mid-December to establish offices in each other's countries. Personnel from Taipei's China External Trade Development Council have already arrived in Cairo to begin preparations to set up the Taiwan office there, and the Board of Foreign Trade and the Ministry of Foreign Affairs (which are government agencies) both want to send personnel to the Cairo office. Taiwan citizens visiting Egypt may use their "Republic of China" passports to obtain visas (whereas in the past these people had to use "airport identification certificates" in place of passports). The fact that Taipei has

co-opted Egypt, a nation that had played by the Chinese Communists' diplomatic rules (meaning, sovereign status), is nothing less than a challenge to Beijing's diplomatic relations; Beijing absolutely cannot continue to keep silent and thereby appear to give tacit consent to the arrangement.

Also, Taipei's establishment of diplomatic relations with Panama in November increased the number of countries with which Taiwan maintains formal diplomatic relations to 23, which event was another shock to China.

To be fair, with respect to the statement by the Foreign Ministry and its reiteration of China's stand on the sovereignty issue, which reiteration was addressed to the nations with which China maintains diplomatic relations, there is the fact that there are pre-existing agreements and communiqués establishing diplomatic relations. These countries naturally must honor their promises and not make any more moves that exceed the restrictions on government-to-government relations with Taiwan. However, with respect to the issue of international government-to-government organizations, the even sterner wording employed in and the attempt to restrict applicability of the "China Taipei" model according to the Foreign Ministry's statement may undermine the long-term operations of the process of unification during the transition period.

Let us review the history of this issue. Taiwan's participation in international government-to-government organizations began in 1984, during the clash over [China's] membership in the Asian Bank, and after Beijing gave its approval of the "China Taipei" formula. During a meeting with overseas Chinese scholars in June 1983, Deng Xiaoping raised "six ideas" (which were later announced as "four ideas" by the New China News Agency) and indicated that Taiwan could use the name "China Taipei" when she participated in international government-to-government organizations together with Beijing. The Chinese Foreign Ministry, deciding that this was a serious matter, subsequently issued, with Deng Xiaoping's approval, a clarification which stated, "The 'China Taipei' approach was employed to resolve the specific case of the 'Asian Bank' and is not to be taken as a precedent."

Before 1984, Taipei would announce its withdrawal from any international organization joined by China, a practice known as the "shattered jade" policy. But in 1984 Taiwan sent a team to compete in the Los Angeles Summer Olympics and for the first time took part in an international organization in which mainland representatives participated, which move gave rise to the "Olympics model." Thereafter, in response to urging from political and academic circles, Taipei gradually abandoned her rigid policy of "preferring to be shattered jade rather than unbroken pottery." According to statistics, Taipei participates in more than 30 large and small semiofficial or nonofficial international organizations in which she maintains or has maintained a "coexistence" with Beijing.

Throughout this coexistence, both the mainland and Taiwan have continuously employed the name issue to wage unsubstantive conflict with each other. China will accept Taiwan's participation only as "China Taipei," whereas Taipei likes to embroil Beijing in quibbling by using the names "Republic of China" or "China Taiwan." But in most cases, Taiwan has not gotten her way and has failed to win back some face.

Nevertheless, the fact that the two sides of the strait both send representatives to the same international organizations represents a very constructive advance for the mid-1980s, will greatly help promote China's unification, and has been applauded by people in all circles both at home and abroad—even radical advocates of Taiwanese independence do not oppose coexistence of the two sides in international organizations.

In the interests of the overall cause of Chinese unification, Beijing really should not be setting limitations on the applicability of the "China Taipei" model. First of all, Taiwan's joining of international government-to-government organizations under the principle of one China and under the name "China Taipei" is basically consistent with Beijing's firm stand on state-to-state sovereignty, and there is no reason why this model cannot be applied generally to all international organizations. Secondly, isolating Taiwan—whose lifeline is international trade—internationally is much more likely than the threat of military force to stir up feelings of separation from China among the people of Taiwan and is a more direct threat to Taiwan's economy and the lives of her people. Thus Beijing leaders should carefully reexamine the negative effects of this approach and take steps to improve their approach to the issue.

From the perspective of the mainland, this statement by the Chinese Foreign Ministry is also a continuation of a series of unification offensives launched during the past year. The move to step up the propaganda attack indicates first of all the impatience of the aging Chinese Communist power holders (especially Deng Xiaoping) on the unification issue. It is rumored that at the Second United Front Theoretical Work Conference convened in China in early November Deng Xiaoping declared that Taipei persists in her "three nos": "Namely, refuses unification, perpetuates the prolonged division of the nation, and persists in opposing the entire nation"; that "there is a limit to our patience, too"; and that "the sovereign authority to decide how to resolve the problem rests in our hands." Although the Foreign Ministry statement announced nothing new, it should not be overlooked.

In addition, last November Beijing published a strongly worded article in the official weekly magazine LIAOWANG that accused the United States of abetting Taiwan's refusal to accept unification; subsequently Beijing decided to withdraw. The October LIAOWANG carried an article signed by "Chen Dengcai" [7115 4078 2088], which, "as a matter of principle," categorized all overseas statements criticizing the "one nation, two

systems" concept as "one of the three big obstacles to the unification of the Fatherland" (the other two being "foreign interference" and "Taiwanese independence on the island"), thus linking together these radical trends. This cannot but cause alarm.

In addition to the fact that the aging Chinese Communist power holders are eager to achieve unification so as to establish glorious names for themselves in history, another major cause of the aforementioned trends is the fact that the mainland's economic reform is eager to expand its role in world economic relations and trade. In a speech at the Montreal meeting of GATT on 7 December last year, Shen Jueren [3088 6030 0086], mainland vice minister of foreign economic relations and trade, clearly indicated the importance of multifaceted trade to China's economic reform. Although China's trade capacity at the moment is much weaker than and is no match for Taiwan's, this is not necessarily not a latent trend. Many of China's labor intensive industries are already putting similar, smaller enterprises in Taiwan under tremendous pressure. Besides, if Taiwan uses her economic and trade might to propel her international diplomacy and politics, China's previous policy of leaving the economic and cultural sides of the net open for Taiwan will probably change.

It should be stated that Taipei's abandonment of the "shattered jade" policy and adoption of "flexible diplomacy" is a commendable change which is very constructive for Taiwan, for all of China, and for the great cause of unification. For Taiwan, "flexible diplomacy" in fact represents abandonment of the "three-no policy" and will help reduce the islanders' feeling of isolation and the tension and pressure caused by the Taiwanese independence movement. For the mainland, flexible diplomacy

will increase contacts and understanding between the two sides of the strait in all areas, promote the maturation of conditions for unification, and lead the Chinas on the two sides of the strait to cooperate in the international community and to deal with the rest of the world as one.

As its name suggests, the emphasis of "flexible diplomacy" is on "flexibility." In carrying out this diplomacy, Taipei must strengthen her use of tactics and strategy, place more emphasis on her substantive interests, and lessen wrangling over names. In recent interpellations in the Legislative Yuan, Taiwan's Foreign Affairs Minister Lien Chan repeatedly declared that Taiwan's overseas "commercial affairs offices" would be transformed into "consulate generals" and her overseas "cultural centers" would be upgraded to "embassies." Such moves would be of no benefit and would only enrage China and make Taiwan's diplomacy even more difficult. In addition, Taiwan has grown accustomed to using the international and diplomatic breakthroughs she has achieved as a "cardiotonic," makes a big propaganda display, and thus infuriates and frustrates China. This reveling in glory and fetish for showdowns ultimately will backfire calamitously on Taiwan. Taipei should carefully rethink these practices.

Taiwan should realize that, since Beijing joined the United Nations in 1971, Taiwan has no longer been a match for the mainland in terms of international strategic status and political clout. Any showdown that might arise from conflict between the two sides cannot be advantageous for Taiwan. As a major economic actor and trader, Taiwan should avoid reckless fights with the mainland over political interests, be realistic, focus on survival, and work to build stability for her economy and foreign trade. Otherwise, there will not be much flexibility in her "flexible diplomacy."